Tax

Expenditures

2003 Edition

Québec

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- Ministère des Finances, de l'Économie et de la Recherche
- Ministère du Revenu

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TAX EXPENDITURES

2003 Edition

Ministère des Finances, de l'Économie et de la Recherche
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SUMMARY

The main purpose of the tax system is to generate enough revenue to enable the government to finance its activities. The tax system also has other goals: for instance, the government uses it to pursue certain strategic economic, social or other objectives such as supporting economic development, encouraging retirement savings, protecting low-income households or assisting families.

Over the years, the government has introduced many preferential measures, commonly called "tax expenditures", into the tax system to afford tax relief for certain specific groups of individuals or businesses, or in relation to certain activities.

Tax expenditures reduce or defer taxes otherwise payable by taxpayers. They come in many forms, in particular as income not subject to tax, tax exemptions, tax refunds, deductions in calculating income, tax credits or tax deferrals.

This document provides information for assessing the tax expenditures of Québec's tax system. It identifies tax expenditures for eight tax fields and gives the cost of each one to the government from 1997 to 2003. [1]

Tax expenditures in 2001

Québec's tax system contains more than 280 tax expenditures. Among these, more than 140 are associated with the personal tax system, more than 95 with the corporate tax system and more than 40 with the consumption tax system. Approximately 60% of tax expenditures are geared to individuals while the others are designed more specifically for corporations.

Despite certain caveats,[2] the addition of tax expenditures is useful for illustrating their size. Overall, tax expenditures amounted to $13.2 billion in 2001, that is approximately 28% of the government's tax revenues. Of this amount:

- 68% stemmed from tax expenditures relating to the personal income tax;
- 12% stemmed from tax expenditures relating to corporate taxes;
- 19% stemmed from tax expenditures relating to consumption taxes.

The measures pertaining to individuals account for about 85% of the total cost of tax expenditures, i.e. $11.2 billion, compared with $2.0 billion for those geared to businesses.

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[1] The analysis in this document does not reflect the fiscal measures announced since January 1, 2003, particularly in the *2003-2004 Budget Speech*.

[2] For more information, see page 25.

OVERALL COST OF TAX EXPENDITURES IN 2001[1]

	Individuals	Corporations	Total	
	($ million)	($ million)	($ million)	(share)
Personal income tax	9 040	—	9 040	*68.3%*
As a percentage of personal income tax[2]	—	—	*36.0%*	—
Corporate tax system	—	1 639	1 639	*12.4%*
As a percentage of corporate taxes[3]	—	—	*16.7%*	—
Consumption taxes	2 180	382	2 562	*19.3%*
As a percentage of consumption taxes	—	—	*20.6%*	—
Total	**11 220**	**2 021**	**13 241**	***100.0%***
As a percentage of tax revenues			*28.0%*	—

1 Excluding certain tax expenditures whose cost is small or not available, as well as measures announced since January 1, 2003, particularly in the *2003-2004 Budget Speech*.
2 Including the 1% contribution to the Health Services Fund payable by individuals.
3 Including income tax, tax on capital, employer contribution to the Health Services Fund and other taxes applicable to corporations.

The largest tax expenditures are associated with the personal tax system. Many of these are designed to encourage saving for retirement, maintain the progressive nature of the tax system and support families, in particular:

- the deductibility of contributions to a registered retirement savings plan or a registered pension plan;
- the tax credit relating to the flat amount of the simplified tax system;
- tax credits for dependent children and the tax reduction in respect of families;
- the refundable tax credit for the Québec sales tax (QST);
- the refundable tax credit for child care expenses.

In the corporate tax system, the largest tax expenditures target scientific research, as well as the development of the new economy, in particular:

- refundable tax credits for scientific research and experimental development (R&D) (1983);
- fiscal measures for corporations carrying out an innovative project in certain designated sites (CDTI) or the Cité du multimédia.

The primary measures concerning the consumption tax system also target individuals, including:

- the zero-rating of basic groceries (QST);
- the exemption of rental accomodation (QST);
- the exemption with respect to an individual policy of insurance of persons (taxes on insurance premiums);
- the zero-rating of financial services (QST);
- the exemption of health care services (QST).

COST OF CERTAIN TAX EXPENDITURES IN 2001
(Millions of dollars)

Personal income tax	
• Registered retirement savings plan[1]	2 234
• Registered pension plan[1]	1 542
• Tax credit relating to the flat amount of the simplified tax system	1 035
• Tax credit for dependent children	637
• Refundable tax credit for the Québec sales tax	424
• Tax reduction in respect of families	337
• Non-taxation of capital gains on a principal residence	240
• Real estate tax refund	218
• Partial inclusion of capital gains	192
• Refundable tax credit for child care expenses	191
• Tax credit for contributions to a labour-sponsored fund	127
• Tax credit for donations	119
• Tax credit for medical expenses	116
• Lifetime $500 000 capital gains exemption on shares on small businesses	86
• Other	1 542
Sub-total, personal income tax	***9 040***
Corporate taxes	
• Refundable tax credits for research and development	475
• Partial inclusion of capital gains	216
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	125
• Refundable tax credit for Québec film and television production	93
• Refundable tax credit for corporations established in the Cité du multimedia	39
• Fiscal measures for corporations carrying out an innovative project in certain designated sites (CDTI)	36
• Other	655
Sub-total, corporate tax	***1 639***
Consumption taxes	
• Zero-rating of basic groceries	829
• Exemption of rental accommodation	341
• Exemption with respect to an individual policy of insurance of persons	231
• Zero-rating of financial services	115
• Exemption of health care services	93
• Zero-rating of books	38
• Other	915
Sub-total, consumption taxes	***2 562***
TOTAL	***13 241***

[1] Includes the deduction of contributions and the non-taxation of investment income, less the taxation of withdrawals.

Cost of tax expenditures, 1997 to 2003

In 1997, the cost of all tax expenditures was $11.0 billion. In 2003, the overall cost is expected to reach $14.1 billion, an average increase of 4.2% a year since 1997.

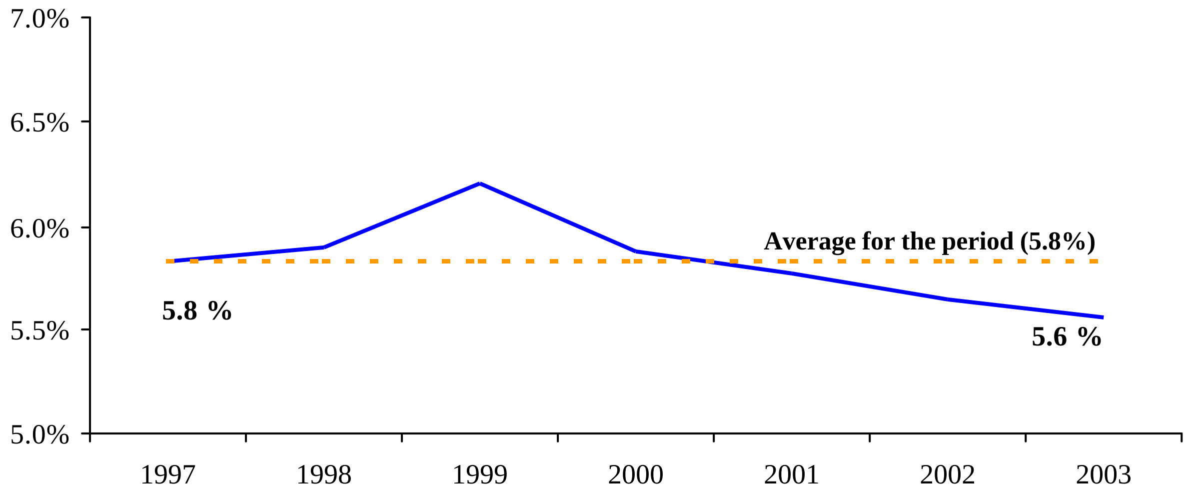
OVERALL COST OF TAX EXPENDITURES, 1997 TO 2003[1]
(Millions of dollars)

	1997	1998	1999	2000	2001	2002	2003
Personal income tax	8 021	8 233	9 343	9 227	9 040	9 021	9 185
Corporate taxes	979	1 096	1 313	1 479	1 639	1 865	2 095
Consumption taxes	1 973	2 243	2 381	2 468	2 562	2 669	2 778
Total	**10 973**	**11 572**	**13 037**	**13 174**	**13 241**	**13 555**	**14 058**

[1] Estimates from 1997 to 2001 and projections thereafter.

The overall cost of tax expenditures as a percentage of GDP has fallen slightly from 1997 to 2003. Tax expenditures represented 5.8% of GDP in 1997 and are expected to amount to 5.6% of GDP in 2003.

OVERALL COST OF TAX EXPENDITURES, 1997 TO 2003
(As a percentage of GDP)



Tax Expenditures
2003 Edition

INTRODUCTION

Over the years, the government has introduced numerous of preferential measures into Québec's tax system to provide tax relief for certain groups of individuals or businesses. These tax preferences, commonly called "tax expenditures", enable the government to achieve certain strategic economic, social or other objectives by encouraging certain behaviour or activities, or by assisting certain groups of taxpayers.

The purpose of this document is to provide relevant information on the tax expenditures of Québec's tax system. It identifies the existing tax expenditures in Québec's major tax laws and quantifies the cost of each one of them to the government.

In this regard, it should be noted that an accounting of tax expenditures does not constitute an evaluation of the government's fiscal policy, nor an evaluation as to whether or not the preferential measures of Québec's tax system should be maintained.

This document has two parts. The first is divided into three sections:

– The first section provides a definition of tax expenditures: how they are defined, and what their objectives are. It also discusses the method used to identify tax expenditures.

– The second section focuses on the items relating to estimates of the cost of tax expenditures. In particular, tax expenditures relating to personal and corporate income tax, and consumption taxes, are listed along with their cost.

– The third section considers the question of the evaluation of tax expenditures. It briefly describes a framework of analysis that can be used to evaluate tax expenditures and additional information regarding certain tax expenditures.

Part II provides descriptive information on each tax expenditure. It is divided into three sections:

– Section 1 focuses on tax expenditures relating to personal income tax.

– Section 2 considers tax expenditures relating to the corporate tax system.

– The last section deals with tax expenditures relating to the consumption tax system.

Part I

Definition and cost of tax expenditures

TABLE OF CONTENTS – PART I

1. WHAT ARE TAX EXPENDITURES?

1.1 Using the tax system to achieve certain objectives

The main purpose of the tax system is to generate enough revenue to finance the government's expenditures, such as expenditures for health, education, social assistance and all other budgetary expenditures.

As the following table shows, taxes are the government's main source of funding. For fiscal year 2001-2002, tax receipts accounted for 83.2% of the government's own-source revenue.

TABLE 1
THE QUÉBEC GOVERNMENT'S OWN-SOURCE REVENUE
(Millions of dollars)

	2001-2002[1]
Individuals	
• Income tax	15 923
• Contribution of 1% by individuals to the Health Services Fund	155
Corporations	
• Income tax	1 859
• Tax on capital	1 405
• Employer contribution to the Health Services Fund	4 136
• Other	765
Consumption taxes[2]	*9 885*
Tax receipts	***34 128***
Other revenue	
• Duties and permits[2]	1 027
• Miscellaneous revenue	1 178
• Revenue from government enterprises	2 731
• Consolidated organizations	1 940
Own-source revenue	***41 004***
Tax receipts/Own-source revenue	*83.2%*

1 Budget plan 2003-2004.
2 Duties on alcoholic beverages are included in consumption taxes.

Tax expenditures operate through the tax system. They are one of the mechanisms available to the government to offer advantages to individuals and to businesses to achieve certain strategic economic, social or other objectives.

The wide variety of tax expenditures underscores their flexibility and suggests a broad range of fields of application, as well as an extensive array of economic and fiscal impacts.

As the following illustration shows, tax expenditures can, for instance, be used instead of direct financial assistance. For example, to support companies' R&D activities, the government provides a refundable tax credit for R&D expenditures.

ILLUSTRATION 1
INTERVENTION TOOLS AVAILABLE TO THE GOVERNMENT

Intervention tools according to objectives

The tax system
- Income tax
- Tax on capital
- Consumption taxes
- Etc.

Other tools
- Direct financial assistance to individuals
- Supply of public services
- Business subsidies
- Loan guarantees
- Regulation
- Etc.

Tax expenditures
- Exclusions and exemptions
- Deductions
- Reduced tax rates
- Tax credits
- Tax deferrals
- Tax exemptions
- Tax refunds

1.2 Definition of tax expenditures

Tax expenditures generally refer to measures which reduce or defer taxes payable by taxpayers. They can take many forms, in particular income not subject to tax, deductions in calculating income, tax credits, tax deferrals or tax exemptions. In other words, tax expenditures are exceptions in relation to what can be considered the basic tax system.

Tax expenditures are designed to influence certain behaviour or activities, as well as to assist certain groups of taxpayers in a particular situation. Among others, the government uses tax expenditures to support economic development, encourage retirement savings, stimulate R&D and foster charitable donations.

The concept of the tax expenditure accordingly refers to the government's fiscal policy choices by which it willingly agrees to forego some of its tax revenue to achieve its objectives. For this reason, tax expenditures must not be confused with the ways some taxpayers use to circumvent the tax system, for instance through tax avoidance or tax fraud.

– Operation of tax expenditures

Tax expenditures are an integral part of various tax laws. They come into play either in the rate structure, for instance by offering preferential rates for certain types of activity, or in the basic tax base, for instance by granting certain deductions. The following illustration shows how tax expenditures alter the basic tax system and affect the government's tax receipts.

ILLUSTRATION 2
OPERATION OF TAX EXPENDITURES

Basic rate X basic tax base — **Four possibilities:**

- **Rate reductions X basic tax base**
- **Basic rate X** { **Exclusions**, **Deductions**, **Deferrals**, **Exemptions** }
- **Tax refunds**
- **Tax credits**

= **Government tax receipts**

Basic tax system

Tax expenditures

1.2.1 The basic tax system

As well as considering their distinctive characteristics, tax expenditures must be identified according to a process which involves:

> " ... a classification exercise which amounts to setting a distinction, in the tax provisions in effect, between those that conform to a standard or reference and a series of provisions that are exceptions to such standard."[3]

Tax expenditures are thus exceptions to a standard or reference which is defined as the basic tax system. Any tax measure seeking to confer tax relief which diverges from this basic system constitutes a tax expenditure. Accordingly, to establish tax expenditures, the basic tax system must first be defined.

3 Extract from the tax expenditure definition process provided by the Organization for Economic Cooperation and Development (OECD). *Tax Expenditures: Recent Experiences* (OECD), 1996.

– **Determination of the basic tax system**

The basic tax system can be defined as the set of structural characteristics on which the tax system is based, before the application of any preferential measure.

- The basic tax system encompasses the most fundamental elements of the tax system, among other things, the overall tax base, the rate structure, taxpayers covered (the taxation unit) and the taxation period. These items generally are part of the basic tax system and, consequently, are not considered tax expenditures.

- Preferential measures are fiscal measures that are designed, according to the government's specific objectives, to provide tax relief in order to support certain groups of taxpayers or encourage certain activities the government considers desirable. These measures are considered tax expenditures.

Generally, for most fiscal measures, the definition of the basic tax system raises no particular classification problems, so that a consensus can be reached on most of its components.

However, in some cases, fiscal measures can be interpreted in various ways and, depending on perceptions, opinions can differ as to the elements to be included. Accordingly, there is a subjective element to the exercise and choices must then be made.[4]

For instance, some might decide to define a very restrictive basic tax system to have as broad a definition of tax expenditures as possible. In this situation, even measures used to comply with the most basic characteristics of the tax system could be considered tax expenditures. In the extreme case, it could be decided, for example, to consider the basic tax credit designed to recognize the taxpayer's essential needs as a tax expenditure rather than an item of the basic tax system.

Similarly, the treatment of the tax credit for child care expenses is an item on which opinions may differ. Some may consider that child care expenses are incurred to earn income. Others might maintain that they are consumption expenditures and that the tax assistance granted is a particular benefit designed to reduce their cost to families. In the first case, the tax credit would be considered an element of the basic tax system and, in the second case, a tax expenditure.

[4] In the United States, legislation requires that the government include a list of tax expenditures in its budget, without specifying, however, what the basic tax system should be. To take certain conceptual difficulties into account, the American government uses two different basic tax systems to identify tax expenditures.

– **Description of the basic tax system**

The following pages describe the basic tax system which has been used to identify the tax expenditures of each of Québec's major tax laws. The choices made generally reflect the predominant point of view found in this type of study.

This paper covers the following tax fields:

regarding individuals:

– income tax.

regarding corporations:

– income tax;
– tax capital;
– employer contribution to the Health Services Fund.

regarding consumption taxes:

– Québec sales tax;
– tax on insurance premiums;
– fuel tax;
– tax and duties on alcoholic beverages.

- **Personal and corporate income tax**

  - **Tax base**

The tax base is income in the broad sense and includes, among other things, employment income, business income, income from property and investments (rents, interest, dividends) and capital gains. The measures allowing the deduction of current expenses incurred to earn such income are also considered part of the basic tax system, such as:

– for employment income, the deduction of expenses incurred by certain workers in carrying out their duties (workers paid by commission);

– for business income, the deduction for depreciation representing the loss of economic value of assets, i.e. the depreciation expenses normally allowed according to generally accepted accounting principles. When tax depreciation is greater (example: accelerated depreciation), the extra amount is considered a tax expenditure.

Tax rate structure

The personal income tax system consists of a tax rate structure which rises by income bracket. The tax table is a component of the basic tax system. The basic personal tax credit is also included in the basic tax system since it applies to all taxpayers and favours none in particular. It is equivalent to a zero tax rate on the lowest income bracket.

Turning to the corporate tax system, the basic system consists of the general tax rates in effect for active business income or passive or investment income. Any measure resulting in a reduction of the general tax rate, such as the former small business deduction on the first $200 000 of active business income, is treated as a tax expenditure.

Taxation unit

In the personal income tax system, the main taxation unit is the individual. In Québec, income tax applies to natural persons considered individually. However, special provisions broaden this concept to households, in particular those which take the presence of dependent children into account. For this reason, some tax measures, such as tax credits for the spouse and dependent children, are considered tax expenditures.

As for the corporate tax system, the taxation unit is the corporate business. In the case of corporations, the choice of a taxation unit is more difficult since the current system is based on a variety of concepts: the establishment, the legal entity consisting of a corporation or a group of related corporations. However, of these, the corporate business is the most commonly used notion. For instance, a corporation can deduct losses it has suffered in one activity sector against the profits it has made in another sector. However, losses suffered by one corporation cannot be deducted against the profits of another corporation which is part of the same group.

Taxation periods

The taxation periods for individuals and corporations are the calendar year and the fiscal year respectively. Measures allowing business and investment losses to be carried forward are also considered to be part of the basic tax system. It is generally recognized that business and investment income must be considered over a number of years to allow for the cyclical and multi-year nature of these types of income. The other deferral measures, such as transactions which consist in transferring property with no tax impact (rollovers) and reserves are considered tax expenditures.

Inflation

Income tax applies to nominal income, i.e. without taking inflation into account. For this reason, measures designed to reduce tax payable to make allowance for inflation, in particular, such as the partial inclusion of capital gains, are not considered part of the basic tax system, but rather as tax expenditures.

Structural characteristics

The basic tax system includes certain structural features of the overall tax system which reduce or eliminate double taxation of income, for instance:

– in the personal income tax system, the dividend gross-up mechanism and the associated tax credit are designed to allow for taxes already paid at the corporate level when a dividend is paid to a shareholder;

– in the corporate tax system, the non-taxation of inter-corporate dividends is designed to prevent profits already taxed in one taxable Canadian corporation from being taxed again when received as dividends by another corporation.

Tax on capital

The taxation unit is the corporate business.

The basic system consists of the general rate of the tax on the paid-up capital of the corporation at the end of its fiscal year. The rate applicable to financial institutions is also considered part of the basic structure. Paid-up capital is determined from the financial statements and is calculated according to generally accepted accounting principles.

For the purposes of the tax on capital, insurance companies are subject to a compensatory tax in lieu of the tax on capital which depends on the insurance premiums they collect. The rate of this tax is 2% for life and health insurance premiums and 3% in other cases. The 3% is considered part of the basic system, while the difference between it and the 2% rate is considered a tax expenditure.

Employer contribution to the Health Services Fund

The taxation unit is the employer (private and public sectors)

The tax rate table is considered part of the basic tax system.

The tax base corresponds to the wages paid in Québec to an employee, i.e. the gross employment income for income tax purposes, including the value of taxable benefits granted to him.

- **Québec sales tax**

The Québec sales tax (QST) is a value-added tax collected on a broad base of goods and services. It applies to taxable sales at all stages of production and commercialization and provides businesses with rebates of the tax paid on their inputs (ITRs) Accordingly, it is a tax on final consumption of goods and services.

The tax generally applies according to the destination principle, i.e. it only applies to goods and services consumed in Québec and consequently:

– it applies to imports;

– it does not apply to exports.

The rate of the tax is part of the basic tax system. This rate applies to a tax base that includes the goods and services tax.

- **Other consumption taxes**

As for other consumption taxes, namely the tax on insurance premiums, the fuel tax and the tax and duties on alcoholic beverages, tax expenditures are identified in relation to each of the statutes under which these taxes are levied.

1.2.2 Types of tax expenditures

– Personal and corporate income tax

Tax expenditures regarding income tax can be divided into five major categories:

– exclusions and exemptions;
– deductions;
– reduced tax rates;
– tax credits;
– tax deferrals.

- **Exclusions and exemptions**

This is income not subject to tax, or only partially subject (examples: the guaranteed income supplement, strike benefits or gains earned on the disposition of a principal residence), or persons (individuals or businesses) who are exempt (examples: non-profit organizations and unions)

- **Deductions**

These are the items which reduce income subject to tax. For instance, there are the deductions concerning contributions to a registered retirement savings plan, expenditures made to earn investment income and eligible business investment losses.

The value of the tax expenditure attributable to exclusions, exemptions and deductions depends on the taxpayer's marginal tax rate. Accordingly, the higher the taxpayer's marginal tax rate, the more valuable the tax expenditure associated with the exclusion, exemption or deduction.

Occasionally, a taxpayer's taxable income may not be high enough to benefit fully from a deduction he is entitled to. In such a case, the taxpayer will only use part of the deduction and the value of the tax expenditure for the government is reduced accordingly.

- **Reduced tax rates**

In some cases, the tax system allows tax rates that are lower than the generally applicable rate. The value of this form of tax expenditure does not depend on the marginal tax rate, but only on whether or not the taxpayer can benefit from reduced tax rates.

- **Tax credits**

Tax credits are items which, rather than reducing income subject to tax, generally reduce tax payable. Some tax credits are non-refundable, while others are refundable.

  - **Non-refundable tax credits**

These tax credits can be applied only to reduce tax payable. Examples include dividend tax credits, tax credits for age, for tuition fees, for contributions to the Québec Pension Plan and for charitable donations. However, the unused portion of some of these tax credits can be carried forward, i.e. it can be used to reduce tax payable for another year, as is the case with tax credit respecting interest paid on a student loan.

The value of the tax expenditure depends on the amount of a taxpayer's tax payable. It is possible that a taxpayer's tax payable is not sufficient to use the full amount of these tax credits. For example, if a taxpayer is eligible for a non-refundable tax credit of $2 000 and has tax payable of $1 500, the tax expenditure associated with the tax credit corresponds to $1 500 for the government. It would be the maximum amount if the taxpayer's tax payable was at least $2 000.

- **Refundable tax credits**

These tax credits are refundable because, if their value exceeds the taxpayer's payable tax, the excess is refunded to him. Examples include the refundable tax credit for child care, the refundable tax credit for the QST, the property tax refund and the refundable tax credit for R&D.

As a result, for individuals, these tax credits resemble transfer payments more than tax reductions. For instance, the refundable tax credit for the QST is granted to all low-income taxpayers, even those that have no tax payable.

- **Tax deferrals**

Tax deferrals are amounts that are not included in the calculation of income for the year but are included in the calculation for a future year. Examples include taxation of capital gains at the time of realization and accelerated tax depreciation.

The value of the tax expenditure associated with tax deferrals, like the situation in the case of deductions, depends on the taxpayer's marginal tax rate at the time when the items covered by a tax deferral are used. For instance, the tax expenditure associated with payments to an RRSP depends on the taxpayer's marginal tax rate applicable at the time of payment and the rate applicable at the time the amounts saved are withdrawn.

– **Other corporate taxes**

As for the other forms of tax to which corporations are subject, namely the tax on capital and the employer contribution to the Health Services Fund (HSF), tax expenditures mainly consist of exemptions or deductions for certain types of corporations or activities.

– **Consumption taxes**

Concerning consumption taxes, tax expenditures consist mainly of exemptions for certain goods and services and, in some other cases, rebates of tax paid. For instance, the QST system includes a number of specific exemptions and may also provide a partial QST rebate to certain organizations, such as charities, universities and hospitals.

Tax expenditures can also take the form of reduced tax rates, as is the case with automobile insurance premiums and fuel purchased in some regions. For instance, when an automobile insurance premium is paid, the purchaser pays a tax of 5% rather than the general rate of 9% on insurance premiums. The value of the corresponding tax expenditure for the government is equal to the amount obtained by multiplying the reduction in the rate of the tax by the amount of the insurance premium.

TWO FORMS OF EXEMPTION IN THE QST SYSTEM

Zero-rated goods and services: *no QST is collected on sales of zero-rated goods and services and the seller may claim a rebate of the tax he paid on his purchases, so that ultimately no QST is borne by the consumer. Zero-rated goods and services include basic groceries, prescription drugs and medical devices.*

Exempt property and services: *no QST is collected on sales of exempt goods and services, but the seller may not claim a rebate of the tax he paid on his purchases. Since the seller bears the QST on his purchases, exemption of certain goods and services allows only partial relief from the QST. Exempt goods and services include rental accomodation, health, education, child care and personal care services, as well as the standard municipal services.*

1.3 Achieving the objectives of the tax system

Tax expenditures are an instrument that enables the government to achieve its objectives.

1.3.1 Objectives of a tax system

The first objective of a tax system is to collect enough stable revenue to finance public expenditures. In formulating fiscal policy, many other objectives can also be considered.

These other objectives can be divided into two categories: general objectives, namely the usual criteria considered in any tax system, and specific objectives which take some of a society's choices and preferences into consideration.

– **General objectives**

General objectives are:

- vertical equity according to which a taxpayer with a greater ability to pay than another is taxed more heavily;
- horizontal equity which means that the tax system taxes identically families or taxpayers having the same characteristics;
- neutrality, meaning that the tax system should tax neutrally or identically the activities of economic agents, to avoid altering their behaviour as much as possible;
- simplicity, so that the system is easy to understand, comply with and administer.

– **Specific objectives**

The economic and social changes of recent decades have influenced the formulation of fiscal policy both in Québec and elsewhere. Market globalization, the changing demographic situation and economic and social policy directions have a definite impact on the tax system.

These changes have led to the emergence of new objectives, such as ensuring that the tax system:

- makes allowance for the particular situations of certain categories of taxpayers such as families, older persons, persons engaged in studies or in training, and disadvantaged persons, etc;
- is competitive enough to maintain the competitive nature of the economy and encourage economic agents to remain and produce there.

In this regard, it should be mentioned that one specific objective can often be pursued at the expense of another. An example of this is the trade-off that must be made between higher taxation of middle and high-income taxpayers and competitiveness. While the progressive nature of a tax system redistributes wealth in society, if the tax system is too progressive, the economy's competitiveness and the incentive to work and create jobs can be hampered.

To achieve the objectives of the tax system, tax assistance can be granted depending on:

– the particular features of individuals or businesses (examples: family situation, age, level of income and size of business)

– the source of income (examples: pension income, strike benefits and capital gains)

– how income is used (examples: charitable donations, research and development and retirement savings)

1.3.2 Categories of taxpayers covered by tax expenditures

Québec's tax expenditures cover a variety of categories of taxpayers. Here are some examples:

– for individuals: low-income taxpayers, families with children, older persons, workers, owner-occupants of a residence, students, artists, members of a religious community, native people and investors;

– for businesses: small businesses, new corporations, the mining sector, the farm sector, the manufacturing sector, the new information and communications technologies sector, the film industry and cooperatives.

However, caution is advised in identifying the target client group of a particular measure. First, a distinction must be made between the objective sought at implementation, the means used to achieve it and the groups of taxpayers involved. In some cases, the measures target a category of taxpayers in order to encourage them. For instance, the tax credit for dependent children is designed to grant tax relief to families. In other cases, the measures benefit more than one category of taxpayers. For example, individuals benefit directly from certain measures which also seek to encourage businesses. Accordingly, while the main purpose of the stock savings plan is to improve corporations' capitalization, the deduction is claimed by individuals, namely those who invest in these corporations. In this case, the tax expenditure benefits both businesses and individuals.

Second, the impact of taxes, i.e. the ultimate effect of a tax measure from an economic point of view, is also a factor to be considered. For instance, in terms of the tax expenditures applicable to corporations, the real beneficiaries may be economic agents other than the business itself. Since the tax expenditure reduces the costs of the business, the tax benefit may be spread, depending on circumstances, to consumers in the form of reduced prices, workers in the form of pay increases, or shareholders through a higher return on their investment.

1.3.3 Impact of tax expenditures on the objectives of the tax system

Tax expenditures can have an impact on the fairness, neutrality, simplicity and other objectives of the tax system.

– **Fairness**

Tax expenditures have consequences not only on the tax base and consequently on government revenues, but also on the fairness of the tax system.

Tax expenditures affect the distribution of the tax burden and the progressivity of the system, because they provide tax relief for certain groups of taxpayers compared with others who do not use them. At times, tax expenditures will increase progressivity, while at others they will reduce it depending on whether they are granted as a tax credit rather than a deduction. The effective tax rates applicable to each taxpayer and their relative tax burden can accordingly differ depending on their socio-economic characteristics, the activities they engage in, their behaviour and the choices they make.

– **Neutrality**

Given that tax expenditures are preferential measures, they lead to certain changes in the choices made by taxpayers. Since they are designed to encourage certain types of behaviour or activities in relation to others, (for instance, retirement savings, charitable donations or education), they influence, to a certain degree, the decisions made by individuals and corporations, notably concerning the supply of labour, investment and consumption. Accordingly, pursuing specific objectives means that tax expenditures can directly affect the neutrality of the tax system.

– **Simplicity**

Tax expenditures add complexity to tax legislation, which causes an increase in compliance costs for taxpayers and mandataries, as well as in administration costs for the government. These latter costs must, however, be compared with those that would arise from the implementation of an identical direct financial assistance program.

1.3.4 Importance of the tax environment

The Québec government and the federal government collect income taxes, taxes on capital and consumption taxes, among others.[5] Accordingly it is important, for the two governments, to keep the overall system as simple as possible to avoid increasing administration costs for taxpayers and mandataries. In this context, harmonization of tax measures is generally desirable.

Historically, Québec has avoided dissociating itself too much from the federal system in order not to make the overall tax system overly complicated. That is why a number of tax expenditures applicable under Québec legislation stem from harmonization with federal tax expenditures. For instance, the QST system is harmonized with the goods and services tax system, with but few exceptions.

In some cases, Québec has decided to implement tax expenditures specifically adapted to its preferences. Examples include certain tax credits (tax credit for dependent children, tax reduction in respect for families, real estate tax refund), certain tax exemptions (zero-rating of books) and certain measures intended for investors (Stock Savings Plan, improved tax treatment for mining exploration expenses) or businesses (refundable tax credits for R&D, tax holiday for new corporations, refundable tax credits for new information and communications technologies).

5 Property taxes are also collected by the local sector.

TAX EXPENDITURES IN OTHER JURISDICTIONS

OECD countries

Nearly half of OECD member countries maintain tax expenditure accounts. For most of the countries concerned, these accounts are published annually.[1]

The first accounts were published in the late 1960s by Germany and the United States. The other countries began to publish tax expenditure accounts at the end of the 1970s or during the 1980s.

Publication of a tax expenditure account is required by law in at least seven of the countries publishing such an account, the others doing so despite the lack of a legislative requirement.

Countries have not worked together to agree on the formal or substantive elements contained in these reports. Although there is consensus among all the countries concerned on the method of calculating tax expenditures and the need to cover the major tax fields, there are a number of significant differences concerning other elements. For instance, there is no unanimity on the definition of the notion of tax expenditures nor, consequently, on the standard to be used for their determination. The result is differing practices concerning the presentation of tax expenditure accounts. These differences also make it difficult to compare the results of these reports.

In Canada

The Department of Finance of Canada published accounts on the cost of tax expenditures in 1979, 1980 and 1985. Since 1992, the Department publishes an annual estimate of the costs associated with tax expenditures. The report gives a definition of the concept of tax expenditures, the reference model on the basis of which the estimates are calculated and a description of each measure dealt with in the document. Since 2000, the report also contains descriptive studies on tax expenditures.

Five provinces[2] *have published information concerning tax expenditures. Québec, in 1996 and 1999, along with Ontario, in 1986, presented an exhaustive tax expenditure account with a description of each tax expenditure estimated. Saskatchewan and British Columbia do so on a regular basis, but in less detail.*

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1 *Tax Expenditures: Recent Experiences,* Organisation for Economic Co-operation and Development (OECD*)*, 1996.

2 *British Columbia, Manitoba, Ontario, Québec and Saskatchewan.*

2. THE COST OF TAX EXPENDITURES

This section begins with a description of the methodology used to estimate the cost of tax expenditures and of the items to be considered concerning the interpretation of the cost of tax expenditures.

It follows up with a portrait of tax expenditures in 2001 and of the change in the cost of each tax expenditure from 1997 to 2003.

2.1 Methodology

– Sources of data

The information entered automatically from tax returns and forms filed with the ministère du Revenu du Québec by taxpayers and mandataries is the chief source of data. Federal data banks have also been used for many measures.

For some less broadly applied tax expenditures, data were not automatically entered. Accordingly, to assess their cost, the ministère du Revenu du Québec carried out a special compilation using a sample of tax returns or tax forms.

Other sources of information were also used when the tax data were insufficient or nonexistent. For instance, income not subject to income tax generally does not have to be indicated on tax returns, so that the relevant information must be found elsewhere in order to assess the cost. Other sources of information used include data taken from the financial reports of governments (public accounts), Statistics Canada, the census and other government departments or organizations.

– Method of estimation

There are three main methods for calculating the cost of tax expenditures. The receipt-loss method consists in calculating ex post the amount of the revenue shortfall resulting from the application of a specific measure. The receipt-gain method consists in calculating ex ante the anticipated increase in receipts in the event of the elimination of the benefit. The latter method differs from the former in that it implies an assessment of probable behaviour in reaction to the change. Lastly, the expenditure-equivalent method consists in calculating how much it would cost to offer a monetary benefit equivalent to a tax expenditure through direct spending, assuming, as in the case of the tax receipt-loss method, that behaviour is unchanged.

The receipt-loss method[6] has been adopted for the purposes of this document.

- **Deductions, tax credits and reduced rates**

The cost of most tax expenditures related to personal and corporate income tax was calculated using micro-simulation models built from a representative sample of data taken from tax returns. To assess the cost of the tax expenditure, the method involves recalculating the taxes that would have been paid by each taxpayer if the tax expenditure in question had not existed. Overall, the difference between the taxes payable in the absence of the expenditure and the taxes actually paid gives the revenue shortfall for the government attributable to this tax expenditure.

- **Exclusions and exemptions**

Not all income not subject to tax is indicated on tax returns. Accordingly, it is not always possible to directly recalculate the tax that would otherwise have been paid by those benefiting. Therefore, to estimate the cost of these measures, it was necessary to establish what would have been the taxable income and the tax rate if the income had been subject to tax. For instance, for the non-taxation of lottery and gambling earnings, the revenue shortfall was calculated by redistributing the total amount of realized earnings among all taxpayers who filed a tax return, whether they are taxable or not. This is equivalent to applying the average marginal rate of all taxpayers to such earnings.

In view of the preceding, care is needed in considering the cost of each measure, because the degree of accuracy may not be as high as with other measures.

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6 For methodological reasons, all the countries studied in the OECD report use the receipt-loss method. Tax Expenditures: Recent Experiences, Organisation for Economic Co-operation and Development (OEDC), 1996.

- **Tax deferrals**

The particular feature of deferred income (tax deferrals) is that it is taxed in the future. For the purposes of the calculation of the revenue shortfall for the government, the difficulty stems from the fact that the long-term cost assessment of these measures is a complex and subjective exercise.

The cost of certain measures involving a tax deferral could have been estimated by calculating the interest not earned because of such deferral (example: payment into an RRSP) For the sake of simplicity, this paper uses a single method to estimate the cost of tax deferrals, namely annual cash flow. This method makes it possible to assess the tax receipts the government has not collected for the year being considered, namely the net effect of the tax value of deductions claimed in the current year because of a tax deferral and of amounts reincorporated into income. This method generally gives a fairly accurate idea of the cost of tax deferral measures and has the following advantages:[7]

– the tax data used for the estimates are known and available, which avoids having to make assumptions on the time and value of the eventual payment of deferred taxes;

– the estimates of the cost of deferrals are comparable to those of other tax expenditures (deductions and tax credits) and can be added over many periods without risking double counting.

Because of a lack of data and assessment problems, it is not always possible to assess the cost of some tax deferrals. For instance, the cost of measures concerning the deferral of capital gains, notably the taxation of capital gains when they are realized and the deferral of capital gains on farm property transferred to children, cannot be assessed.

- **Tax expenditures relating to the Québec sales tax**

The costs of most tax expenditures related to the Québec sales tax (QST) have been estimated using the inter-sectoral model of the Institut de la Statistique du Québec. This model makes use of the input-output tables produced by Statistics Canada for Québec. Input-output tables constitute the most detailed description of Québec's economy, reflecting models of exchanges of goods and services by type of industry and consumer. The inter-sectoral model makes it possible to estimate the QST paid by households, business firms and the public sector, for more than 600 goods and services.

In other cases, the cost was generally estimated using data taken from returns filed with the ministère du Revenu du Québec by mandataries (example: partial rebates granted to public service bodies).

– **Projection of the tax cost**

The cost of tax expenditures is projected using various relevant economic indicators available for these years. For instance, according to the expenditure considered, the projection may be based on the

[7] The results may be different in certain circumstances. For instance, in the case of a substantial change in the level of economic activity or in certain types of behaviour, so that the amounts reincorporated into income are higher than the deferrals of the current year, the estimate on an annual cash flow basis may result in a negative cost (gain) for the government. In such situations, the estimate may not reflect the true long-term cost (in present value).

growth forecast for gross domestic product, population, employment, personal income, corporate earnings, inflation and household consumption expenditures. The cost of some tax expenditures which are more difficult to forecast is based on trends observed during recent years.

2.2 Interpretation of estimation results

The estimates and projections of the cost of tax expenditures given in this document do not take into account induced effects such as changes in the behaviour of economic agents or even changes in the level of economic activity itself.

The evolution of the tax system can bring about changes in the behaviour of taxpayers and, to a certain extent, in the level of economic activity. Consequently, estimates of the revenue shortfall do not necessarily correspond to the increase in the government's tax receipts that would result from the elimination of a particular tax expenditure or group of tax expenditures.

– **Changes in behaviour**

Generally, the elimination of a tax expenditure would lead individuals and corporations to alter their economic behaviour. For instance, more than 1.5 million Québec taxpayers contribute to an RRSP, in order to save for retirement, but also to reduce their tax payable, which produces a substantial shortfall for the government. In the absence of this tax incentive, these taxpayers could reorganize their affairs in favour of other retirement savings vehicles that offer tax benefits. They could also decide to invest their money for other purposes to take advantage of other tax incentives.

This example shows that the tax receipts obtained following such a change would be less than the shortfall estimated without changes in behaviour. Taking such effects into consideration would accordingly reduce the tax cost.

– **Impact on the level of economic activity**

The estimates do not take into consideration the economic impact related to tax expenditures. The elimination of certain major tax expenditures could have an impact on growth of economic activity and, accordingly, change the overall level of tax receipts.

For instance, by eliminating the QST rebate for purchasers of new residential housing, the government could reap additional revenue. However, the increase in revenue would be reduced because of the impact of this measure on economic activity. The resulting increase in the price of new residential dwellings would reduce the purchasing power of consumers and their consumption.

– **Cost estimates and projections**

Where possible, the above methodology was used to estimate the cost of individual tax expenditures. To that end, each tax expenditure was estimated independently of the other tax measures, and all other elements were assumed to be unchanged.

It would be misleading to simply add the estimates of the individual costs in order to estimate the overall cost of tax expenditures, for the following two reasons:

- the progressivity of tax rates;
- the interaction of tax measures.

- **Progressivity of tax rates**

The personal income tax system has a progressive tax rate structure. Since a given taxpayer may enjoy a number of tax benefits, the ultimate effect is to lower his marginal tax rate. When tax expenditures are estimated one by one, i.e. at a lower marginal rate than if each taxpayer had not been entitled to any tax expenditure, no cumulative effect is taken into account. The addition of the estimates of the tax cost of each of them would thus under-estimate the real cost of all such measures.

As an example, take a taxpayer who has claimed many deductions and whose income is taxed at 20%. The simultaneous elimination of two deductions, each estimated independently at a rate of 20%, may in reality make the taxpayer taxable at the 24% rate applicable to the higher income bracket. Thus, the cost of the tax expenditure would be higher than the simple addition of the costs associated with the elimination of the two deductions. Similarly, the elimination of a deduction in the calculation of income could increase the shortfall regarding the other deductions claimed.

- **Interaction of tax measures**

Given that there are certain interactions among tax provisions, the sum of a certain number of tax expenditures calculated separately may be different from the result obtained from an overall calculation of the cost of the same set of tax expenditures. This is because, if the independently-calculated costs of various tax expenditures are added, there would be double counting, so that the cost obtained by simultaneously changing a set of measures would be over-estimated.

CAUTION RESPECTING TAX EXPENDITURE ESTIMATES

As a result of the data sources and methodological considerations discussed above, there is a greater risk of error in the figures relating to tax expenditure estimates. Thus, the figures on tax expenditure costs are acceptable, but not exact, estimates of the tax receipt shortfall resulting from these measures. Moreover, due to the progressivity of tax rates and the interaction of tax measures, care must be taken in interpreting and using the estimated overall cost of tax expenditures.

To estimate the overall cost, all tax expenditures for each type of objective should be introduced simultaneously into the appropriate simulation model. Subsequently, all tax expenditures relating to a particular tax field (taxation of individuals, corporate taxation, consumption taxes) should be estimated concomitantly. Two factors explain why, in certain cases, it is impossible to proceed this way:

- *the models used do not always take all tax expenditures into account simultaneously;*
- *the necessary data for certain tax expenditures are not available.*

2.3 Portrait of tax expenditures in 2001

Québec's tax system includes over 280 tax expenditures, more than 140 of which relate to the personal income tax system, more than 95 to the corporate tax system and more than 40 to the consumption tax system. Approximately 60% of tax expenditures apply to individuals, while the others are specific to corporations.

Despite the cautions referred to earlier, it is useful to add tax expenditures in order to illustrate their significance. Overall, tax expenditures totalled $13.2 billion in 2001, i.e. 28.0% of the government's aggregate tax receipts.

Tax expenditures relating to personal income tax accounted for $9.0 billion of that amount,[8] i.e. 68% of all tax expenditures.

Tax expenditures relating to the corporate taxes represented $1.6 billion, or 12% of total tax expenditures. Finally, the consumption tax system accounted for $2.6 billion, or 19% of all tax expenditures.[9]

The measures targeting individuals represented almost 85% of the total cost of tax expenditures, i.e. $11.2 billion, while the measures specific to corporations accounted for $2.0 billion.

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8 If all personal income tax-related tax expenditures were introduced simultaneously into the appropriate micro-simulation model, the estimated overall cost in 1998 would be $7.2 billion, compared to $8.1 billion for the simple addition of individual costs, for a difference of $0.8 billion or 10%.

9 In the case of consumption taxes, the overall cost of tax expenditures should be very close to the sum of each of the measures. This is because, contrary to personal income tax measures, there is very little interaction between consumption tax measures, as the consumption tax system is linear rather than progressive. As a rule, a particular type of property is taxed at a specific rate, which is not affected by the taxation of another type of property. However, there are certain exceptions. For example, the exemption of health-care services has an effect on the rebate that can be claimed by hospitals. Nonetheless, this interaction is limited and the impact on the overall cost is not significant.

TABLE 2
OVERALL COST OF TAX EXPENDITURES IN 2001[1,2]

	Individuals	Corporations	Total	
	($ million)	($ million)	($ million)	(share)
Personal income tax	9 040	—	9 040	*68.3%*
As a percentage of personal income tax[2]	—	—	*36.0%*	—
Corporate tax system	—	1 639	1 639	*12.4%*
As a percentage of corporate taxes[3]	—	—	*16.7%*	—
Consumption taxes	2 180	382	2 562	*19.3%*
As a percentage of consumption taxes	—	—	*20.6%*	—
Total	**11 220**	**2 021**	**13 241**	***100.0%***
As a percentage of tax revenues			*28.0%*	—

1 Excluding certain tax expenditures whose cost is small or not available, as well as measures announced since January 1, 2003, particularly in the *2003-2004 Budget Speech*.
2 Including the 1% contribution to the Health Services Fund payable by individuals.
3 Including income tax, tax on capital, employer contribution to the Health Services Fund and other taxes applicable to corporations.

2.3.1 Personal income tax

Tax expenditures associated with personal income tax are designed in particular to keep the system progressive, provide support for families, increase the incentive to work and encourage retirement saving.

Fiscal measures promoting a progressive tax system and support for families reflect the government's concern for the situation of low and middle-income households. Essentially, they are:

– the tax credit relating to the flat amount of the simplified tax system;[10]
– tax credits for dependent children;
– the refundable tax credit for the QST;
– the tax reduction in respect of families;
– the refundable tax credit for child care expenses;
– the real estate tax refund.

Measures for retirement account for a substantial share of the costs of tax expenditures of the personal tax system. These include the measures relative to retirement savings plans and registered pension plans.

10 Since the 1998 reform of the personal income tax system, Québec taxpayers can replace a number of deductions and non-refundable tax credits by a flat amount that is converted into a non-refundable tax credit. For further information, see section 1 in Part II.

Some measures favour investors and businesses. Three of them are particularly significant in terms of cost, i.e. the non-taxation of capital gains on principal residence, partial inclusion of capital gains, and the lifetime $500 000 capital gains exemption on shares of small businesses.

Among the other measures related to individuals are the non-taxation of worker's compensation indemnities, the tax credit for contributions to a labour-sponsored fund, the tax credit for donations and the non-refundable tax credit for medical expenses.

2.3.2 Corporate taxes

Most of the tax expenditures related to the corporate tax system are granted through refundable tax credits aimed at a number of objectives, in particular, the promotion of R&D and furtherance of the new economy. As regards the latter objective, tax credits for corporations carrying out an innovative project in certain designated sites (CDTI) or the Cité du multimédia play an important role.

Among the other tax expenditures related to the corporate tax system is the tax credit for Québec film and television production, the partial inclusion of capital gains and the various deferral measures, in particular, the 100% deduction for accelerated depreciation, together with the additional 20% deduction and the supplementary 25% deduction.

2.3.3 Consumption taxes

The main tax expenditures with respect to consumption taxes are related to the QST system. Certain goods and services are zero-rated, in particular basic groceries and financial services. Other property and services are exempted. The most important ones, in terms of costs, are rental accommodation and health care services.

QST rebates are mostly allowed to public service bodies: charities and certain NPOs, schools, colleges and universities, as well as hospitals.

The reduction of the fuel tax rates and the tax exemption on premiums for individual policy of insurance of persons basically constitute the other important consumption tax measures.

TABLE 3
COST OF CERTAIN TAX EXPENDITURES IN 2001
(Millions of dollars)

Personal income tax	
• Registered retirement savings plan[1]	2 234
• Registered pension plan[1]	1 542
• Tax credit relating to the flat amount of the simplified tax system	1 035
• Tax credit for dependent children	637
• Refundable tax credit for the Québec sales tax	424
• Tax reduction in respect of families	337
• Non-taxation of capital gains on a principal residence	240
• Real estate tax refund	218
• Partial inclusion of capital gains	192
• Refundable tax credit for child care expenses	191
• Tax credit for contributions to a labour-sponsored fund	127
• Tax credit for donations	119
• Tax credit for medical expenses	116
• Lifetime $500 000 capital gains exemption on shares on small businesses	86
• Other	1 542
Sub-total, personal income tax	***9 040***
Corporate taxes	
• Refundable tax credits for research and development	475
• Partial inclusion of capital gains	216
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	125
• Refundable tax credit for Québec film and television production	93
• Refundable tax credit for corporations established in the Cité du multimedia	39
• Fiscal measures for corporations carrying out an innovative project in certain designated sites (CDTI)	36
• Other	655
Sub-total, corporate tax	***1 639***
Consumption taxes	
• Zero-rating of basic groceries	829
• Exemption of rental accommodation	341
• Exemption with respect to an individual policy of insurance of persons	231
• Zero-rating of financial services	115
• Exemption of health care services	93
• Zero-rating of books	38
• Other	915
Sub-total, consumption taxes	***2 562***
TOTAL	***13 241***

1 Includes the deduction of contributions and the non-taxation of investment income, reduced by the taxation of withdrawals.

2.4 Change in the cost of each tax expenditure from 1997 to 2003

The cost of all tax expenditures was $11.0 billion in 1997. In 2003, the overall cost should reach $14.1 billion, an average increase of 4.2% a year since 1997.

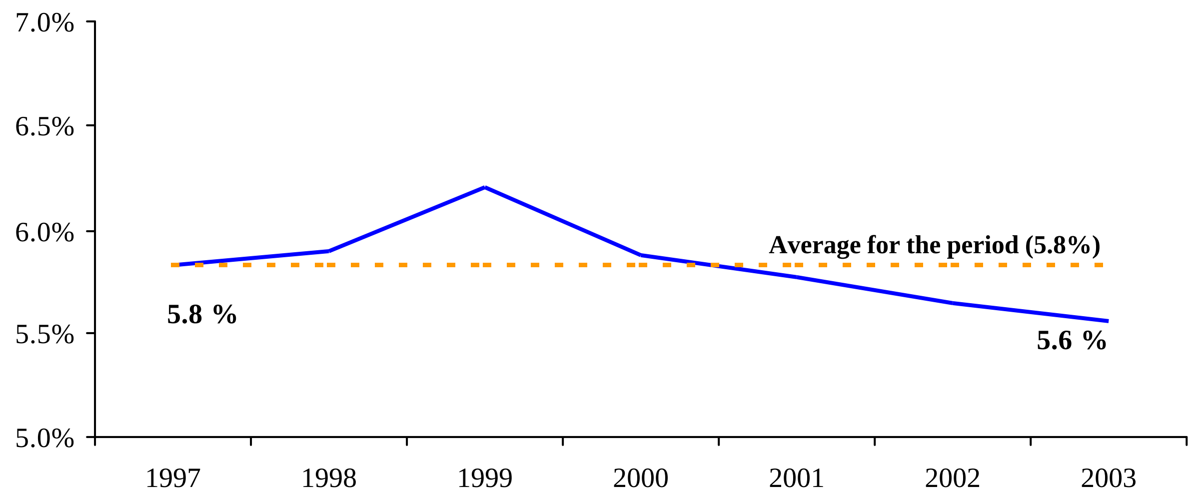
TABLE 4
CHANGE IN OVERALL COST OF TAX EXPENDITURES FROM 1997 TO 2003[1]
(Millions of dollars)

	1997	1998	1999	2000	2001	2002	2003
Personal income tax	8 021	8 233	9 343	9 227	9 040	9 021	9 185
Corporate taxes	979	1 096	1 313	1 479	1 639	1 865	2 095
Consumption taxes	1 973	2 243	2 381	2 468	2 562	2 669	2 778
Total	**10 973**	**11 572**	**13 037**	**13 174**	**13 241**	**13 555**	**14 058**

1 Estimates from 1997 to 2001 and projections thereafter.

Illustration 3 shows that the weight of tax expenditures in GDP has tended to fall slightly over the period. Tax expenditures amounted to 5.8% of GDP in 1997 but should account for 5.6% of GDP in 2003.

ILLUSTRATION 3
CHANGE IN OVERALL COST OF TAX EXPENDITURES FROM 1997 TO 2003
(As a percentage of GDP)



The following three tables present the cost of each tax expenditure from 1997 to 2003.

CAUTION RESPECTING THE CHANGE IN TAX EXPENDITURE COSTS

The change in certain tax expenditure costs may sometimes appear abnormal or indicate a reduction, whereas the cost for the government has actually increased. Indeed, a tax expenditure may sometimes be replaced by another expenditure or by a new budgetary expenditure program. Part II presents the changes carried out that explain the variations noted.

A number of tax measures may apply to two different systems (personal income tax and corporate income tax for example). In general, tax expenditures have been classified according to the tax system under which the measures were implemented.

Within each system, the tax expenditures have been classified for the purpose of organizing and grouping the information presented, in particular according to the objectives of the expenditures or their nature.

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
FISCAL MEASURES ENSURING FAIRNESS	**3 203**	**3 601**	**3 553**	**3 463**	**3 341**	**3 269**	**3 350**	
Tax credits regarding essential needs	***1 239***	***872***	***832***	***784***	***732***	***712***	***688***	
• For spouses*	354	44	35	33	30	28	-	5
• For a person living alone	67	71	74	71	60	58	58	6
• For dependent children								
- amounts for dependent children	693	643	615	583	553	539	543	7
- amount for the first child of a single-parent family*	44	42	42	40	40	39	39	7
- amount for children engaged in post-secondary studies	74	65	59	51	44	43	43	8
• For other dependants*	7	7	7	6	5	5	5	8
Tax credit relating to the flat amount of the simplified tax system[1]	-	***1 025***	***1 071***	***1 081***	***1 035***	***1 025***	***1 098***	***9***
Transfer of non-refundable tax credits not used by a spouse[2]	-	***436***	***456***	***423***	***368***	***347***	***388***	***10***
Support for families and work incentive	***998***	***587***	***521***	***527***	***561***	***509***	***482***	
• Tax reduction in respect of families	316	249	233	259	337	319	307	11
• Family allowances:								
- former basic family allowance*	178	-	-	-	-	-	-	12
- allowance for new-born children	177	120	80	53	28	5	-	12
- allowance for young children	93	-	-	-	-	-	-	12
- allowance for handicapped children	35	-	-	-	-	-	-	12
• Refundable tax credit for child care expenses*	199	218	206	213	191	180	170	13
• Refundable tax credit for adoption expenses	f	f	2	2	3	3	3	15
• Refundable tax credit for the treatment of infertility	-	-	-	f	2	2	2	15

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• SPLW:								
- non-taxation of benefits	f	f	f	f	-	-	-	16
- deduction of the repayment of student loans	f	f	f	f	f	f	f	16
• Refundable tax credit for on-the-job internships	f	f	f	f	f	f	f	95
Other tax measures promoting a progressive tax system	***966***	***681***	***673***	***648***	***645***	***676***	***694***	
• Real estate tax refund	153	225	227	221	218	229	235	16
• Retroactive flat payments*	f	f	f	4	3	3	3	17
• Refundable tax credit for the Québec sales tax[3]*	414	456	446	423	424	444	456	17
• Tax reduction in respect of individuals	399	-	-	-	-	-	-	19
TAX MEASURES WITH SPECIFIC OBJECTIVES	**4 818**	**4 632**	**5 790**	**5 764**	**5 699**	**5 752**	**5 835**	
Agriculture and fisheries	***52***	***52***	***83***	***64***	***48***	***45***	***45***	
• Cash accounting method*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19
• Flexibility in accounting for inventory*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19
• Deferral of capital gains:*								
- defferal of capital gains on farm assets passed on to children	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20
- deferral attributable to the 10-year reserve for capital gains on the sale to children of farm assets	3	2	3	4	3	2	2	20
• Exemption from paying quarterly instalments*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20
• Lifetime $500 000 capital gains exemption on farm assets*	49	50	80	60	45	43	43	21

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**page Part II**
• Lifetime $500 000 capital gains exemption on fishing assets*	-	-	-	-	-	f	f	21
• Deduction of contributions to a FISA	-	-	-	-	n.a.	n.a.	n.a.	21
Culture	***2***	***2***	***2***	***3***	***3***	***3***	***3***	
• Dues and donations to arts associations	f	f	f	f	f	f	f	22
• Deduction for musicians and artists*	n.d	f	f	f	f	f	f	23
• Deduction for an artist regarding copyright royalties	2	2	2	3	3	3	3	23
• Deduction for foreign producers	-	-	-	-	f	f	f	23
• Non-taxation of gains tied to donations and other dispositions of cultural property*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24
• Depreciation of works of art by a Canadian artist*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24
Employment	***41***	***47***	***55***	***122***	***81***	***77***	***77***	
• Non-taxation of strike benefits*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	24
• Non-taxation of certain non-monetary benefits relating to an employment*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25
• Non-taxation of certain amounts paid to a member of a board of directors or a member of certain committees	-	-	-	f	f	f	f	25
• Non-taxation of certain allowances paid to volunteer firefighters*	f	-	-	-	-	-	-	25
• Non-taxation of certain allowances paid to certain emergency services volunteers*	-	3	3	3	3	3	3	26
• Salary deferral under an employee benefits plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26
• Salary deferral because of leave*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**page Part II**
• Deduction for a home relocation loan*	f	f	f	f	f	f	f	27
• Deduction for workers employed abroad*	25	24	28	32	23	22	22	27
• Deductions for stock options granted to employees*	16	20	24	87	55	52	52	28
• Deduction respecting the donation of securities acquired under a stock option*	-	-	-	f	f	f	f	29
• Refundable tax credit for job creation in the clothing and footwear industry	-	f	f	f	f	f	f	102
Business and investment	***414***	***383***	***472***	***656***	***541***	***524***	***536***	
• Non-taxation of income from War Savings Certificates*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30
• Partial inclusion of capital gains*	93	82	112	275	192	184	193	30
• Reduction in the inclusion rate for capital gains resulting from the donation of certain securities*	-	-	-	n.a.	n.a.	n.a.	n.a.	30
• Reduction of the inclusion rate of capital gains arising from donations of property with undeniable ecological value*	-	-	-	n.a.	n.a.	n.a.	n.a.	31
• Exemption of $1 000 in capital gains realized on the sale of personal property*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	31
• Exemption of $200 in capital gains realized on currency exchange transactions*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32
• Non-taxation of capital gains on principal residence*	191	151	190	199	240	229	230	32
• Deferral of capital gains:*								
- taxation of capital gains when realized	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32
- deferral by means of capital gains rollover provisions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	33

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
- deferral of capital gains through transfers between spouses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	34
- deferral by means of the five-year reserve	4	4	4	6	4	4	4	34
- deferral attributable to the 10-year reserve for capital gains on the sale to children of shares of a corporation that carries on a small business	8	10	11	25	8	8	8	35
• Income averaging for owners of private woodlots damaged by the ice storm	-	-	f	f	f	f	-	35
• Deferral using the billing-based accounting method for professionals*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	36
• Rollover of investments in small businesses*	-	-	-	n.a.	n.a.	n.a.	n.a.	36
• Family trusts*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	36
• Deduction for losses as limited partner*	9	5	6	9	5	5	5	37
• Deduction for eligible business investment losses*	18	18	14	11	6	6	7	38
• Lifetime $500 000 capital gains exemption on shares of small businesses*	91	113	135	131	86	88	89	38
Education	***41***	***50***	***70***	***102***	***103***	***103***	***104***	
• Tax exemptions regarding bursaries and awards*	4	4	4	29	36	36	36	39
• Registered education savings plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	40
• Deduction of contributions to a teacher exchange fund*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	41
• Tax credit for tuition or examination fees*	37	39	54	59	53	51	52	41
• Tax credit regarding interest paid on a student loan*	-	7	12	14	14	14	14	42
• Deduction for tool expenses of apprentice vehicle mechanics*	-	-	-	-	-	2	2	42

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**page Part II**
• Tax holiday for foreign post-doctoral interns	-	f	f	f	f	f	f	42
Developmental measures for the economy	***109***	***115***	***139***	***173***	***228***	***329***	***271***	
• Worker gain-sharing plan	11	6	4	2	-	-	-	43
• Market makers	f	f	f	f	f	f	f	43
• Deduction for certain flow-through share issue expenses	f	f	f	f	f	f	f	44
• Deductions relating to strategic investments:								
- Stock Savings Plan	14	16	18	18	20	20	20	44
- Flow-through shares								
- basic deduction of 100% of Canadian exploration expenses*	10	6	7	7	6	6	7	45
- additional deductions of 25% and 50%	4	2	3	3	3	3	3	45-46
- Québec Business Investment Companies	6	6	9	8	4	4	4	46
- Additional capital gains exemption for certain assets relative to resources	f	f	f	3	f	f	f	47
- Cooperative investment plan	6	5	6	6	11	13	13	47
• Deduction for R&D capital expenditures*	f	f	f	f	f	f	f	122
• Tax holiday for foreign researchers (R&D)	f	f	2	3	3	3	3	48
• Tax holiday for foreign experts	-	-	f	f	f	f	f	48
• Tax holiday for Québec seamen	f	f	f	f	f	f	f	49
• Tax exemptions for the employees of an international financial centre	4	4	6	10	14	13	13	49
• Tax holiday for foreign experts employed by a securities exchange or securities clearing corporation	-	-	-	f	f	f	f	50

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Deduction for a member of a partnership that operates an international financial centre	-	f	f	f	f	f	f	50
• Deduction for independent financial derivatives traders	-	-	-	-	f	f	f	50
• Tax holiday for foreign specialists working for a corporation that carries out an innovative project in certain designated sites	f	f	f	f	f	f	f	51
• Tax holiday for foreign specialists working in certain designated biotechnology sites	-	-	-	-	-	n.a.	n.a.	52
• Tax holiday for foreign specialists working in the nutraceutical and functional foods sector	-	-	-	-	-	n.a.	n.a.	52
• Tax holiday for foreign specialists working in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or a new economy centre	-	-	-	n.a.	n.a.	n.a.	n.a.	53
• Tax holiday for foreign specialists working in innovation centres	-	-	-	-	-	n.a.	n.a.	53
• Tax holiday for foreign experts working in E-Commerce Place	-	-	-	n.a.	n.a.	n.a.	n.a.	53
• Tax holiday for foreign specialists working in the e-business sector in certain designated sites	-	-	-	-	-	n.a.	n.a.	54
• Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel	-	-	f	f	f	f	f	54
• Tax holiday for foreign professors	-	-	-	f	f	f	f	55

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference page Part II
	1997	1998	1999	2000	2001	2002	2003	
• Refundable tax credit relating to the training period of young specialized employees of an IFCs	-	f	f	f	f	f	f	102
• Refundable tax credit for IFC canvassing expenses	-	f	f	f	f	f	f	103
• Refundable tax credit for canvassing expenses for a foreign investment fund	-	-	-	n.a.	n.a.	-	-	103
• Refundable tax credit for the use of less-polluting dry-cleaning technology	f	f	f	f	-	-	-	115
• Refundable tax credit for railway companies	-	f	f	f	f	f	f	107
• Refundable tax credit for the maintenance of racehorse	-	-	-	f	f	f	f	101
• Tax credit for contributions to a labour-sponsored fund*	54	70	84	113	127	144	133	55
• Non-taxation of tax credits	f	f	n.a.	n.a.	n.a.	n.a.	n.a.	90
• Refundable tax credits for scientific research and experimental development	f	f	f	f	f	f	f	93
• Tax credit for the acquisition of shares of Capital régional et coopératif Desjardins	-	-	-	-	40	123	75	55
Recognition of certain special situations	***36***	***30***	***30***	***38***	***61***	***81***	***106***	
• Refundable tax credit for lodging a parent*	14	14	15	16	16	16	16	56
• Refundable tax credit for home maintenance of an older person	-	-	-	2	25	46	67	56
• Deductions for inhabitants of remote regions*	15	12	13	13	12	11	15	56

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**page Part II**
• Refundable tax credit for individuals living in a northern village	-	f	f	f	f	f	f	57
• Deduction for lodging of members of a religious order*	2	2	2	2	2	2	2	58
• Tax credit for members of a religious order	5	2	f	f	f	f	f	58
• Refundable tax credit for top-level athletes	-	-	-	5	6	6	6	58
Retirement	***3 470***	***3 340***	***4 299***	***3 935***	***3 983***	***3 947***	***3 977***	
• Registered retirement savings plan:*								
- deduction for contributions	1 221	1 175	1 350	1 469	1 430	1 393	1 354	59
- non-taxation of investment income	936	850	1 127	1 043	1 102	1 137	1 283	59
- taxation of withdrawals	-304	-301	-300	-314	-298	-285	-311	59
• Registered pension plan:*								
- deduction for contributions	1 032	990	1 092	1 023	1 006	980	940	59
- non-taxation of investment income	1 566	1 529	2 007	1 755	1 748	1 695	1 793	59
- taxation of withdrawals	-1 195	-1 140	-1 223	-1 281	-1 212	-1 162	-1 266	59
• Deferred profit-sharing plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	60
• Tax credit for retirement income*	56	66	70	68	59	55	54	60
• Tax credit with respect to age*	158	171	176	172	148	134	130	61
Health	***127***	***108***	***119***	***141***	***154***	***161***	***220***	
• Tax credit for medical expenses*	100	80	86	104	116	122	181	62
• Refundable tax credit for medical expenses*	9	8	9	10	11	12	12	62
• Tax credits relating to medical care not provided in the region of residence	f	f	f	f	f	f	f	62
• Tax credit for a person suffering from a severe and prolonged mental or physical impairment*	18	20	24	27	27	27	27	63

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
Income support	***342***	***327***	***336***	***331***	***305***	***292***	***301***	
• Non-taxation of last-resort assistance benefits*	21	-	-	-	-	-	-	63
• Non-taxation of financial assistance with respect to child care expenses received under government employment assistance programs	-	-	-	n.a.	n.a.	n.a.	n.a.	63
• Deduction of financial assistance provided for payment of tuition fees relating to basic adult education[4]*	-	-	-	-	-	2	f	64
• Non-taxation of the guaranteed income supplement and spouse's allowance*	64	74	76	73	67	65	66	64
• Non-taxation of worker's compensation indemnities*	125	124	133	141	133	130	132	64
• Non-taxation of indemnities received from the Société de l'assurance automobile du Québec*	56	62	64	62	57	53	54	65
• Non-taxation of certain indemnities received as a victim of a crime*	4	4	4	4	4	4	4	65
• Non-taxation of certain income from indemnities regarding physical or mental injuries*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	65
• Non-taxation of death benefits up to $10 000*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	65
• Non-taxation of pensions and indemnities (injury, disability or death) paid to RCMP officers*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	66
• Non-taxation of allowances of war veterans, war pensions and allowances paid to civilians and other military pensions (including those paid by allied countries)*	f	f	f	f	f	f	f	66

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**page Part II**
• Non-taxation of disability pensions of war veterans and dependants' support allowances*	14	14	14	14	13	13	13	66
• Alimony and support allowance*	58	49	45	37	31	25	32	67
Other specific measures	***186***	***178***	***185***	***199***	***192***	***190***	***195***	
• Transfer between spouses of certain non-refundable tax credits[5]*	38	-	-	-	-	-	-	67
• Non-taxation of gifts and bequests*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	67
• Non-taxation of income of Indians on a reserve*	17	20	23	26	24	23	23	68
• Non-taxation of funds accumulated in a registered home ownership savings plan (RHOSP)	f	f	f	-	-	-	-	68
• Non-taxation and deduction for employees of certain international governmental and non-governmental organizations*	7	7	4	9	7	7	7	69
• Non-taxation of government housing purchase or renovation assistance programs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	69
• Deduction of moving expenses*	5	5	6	6	6	6	7	69
• Assistance for prospectors and prospecting sponsors*	f	f	f	f	f	f	f	70
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	15	23	22	21	20	19	19	124
• Tax credit for donations*	92	112	119	126	119	116	120	70
• Tax credit for contributions to a political party*	3	5	3	3	5	5	5	71
• Refundable tax credit for a taxi business	3	3	3	3	5	8	8	72

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Refundable tax credit for the renewal of the taxi fleet	-	-	-	-	f	f	f	73
• Premier toit refundable tax credit	4	f	-	-	-	-	-	73
• Property tax refund for forest producers	2	3	3	3	4	4	4	74
• Refundable tax credit relative to the declaration of tips	f	f	2	2	2	2	2	115
• Deferral of taxation of an eligible rebate	-	-	-	-	-	n.a.	n.a.	74
TAX MEASURES SHOWN FOR INFORMATION PURPOSES	**7 424**	**8 040**	**8 610**	**8 678**	**8 167**	**8 055**	**8 209**	
• Basic tax credit[6]*	4 789	5 321	5 404	5 294	4 898	4 802	4 848	74
• Employment insurance contributions:								
- Tax credit regarding contributions paid by employees[1]*	406	435	432	408	361	342	331	75
- Non-taxation of contributions paid by employers*	650	595	615	586	523	487	471	75
• Contributions to the Québec Pension Plan:								
- Tax credit regarding contributions paid by employees and self-employed workers[1]*	395	484	552	587	618	663	718	75
- Non-taxation of contributions paid by employers and deduction for self-employed workers*	451	467	564	606	646	683	739	75
• Tax credit for union and professional dues*	134	89	93	99	95	93	94	76
• Deduction of certain employment-related expenses*	94	95	98	104	93	91	93	76
• Non-taxation of allowances paid to certain public officers*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	76

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Non-taxation of indemnities paid to diplomats and other government employees stationed abroad*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	77
• Tax depreciation (extra amount compared with accounting depreciation)*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	127
• Deduction of entertainment expenses*	18	39	58	63	63	60	61	129
• Deduction of expenses of an attendant*	f	f	f	f	f	f	f	77
• Expenses incurred to earn investment income*	72	69	78	91	79	75	84	77
• Dividend gross-up and tax credit*	102	77	126	163	179	187	192	77
• Non-taxation of capital dividends*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78
• Deduction of farm losses of part-time farmers*	8	9	9	9	9	8	8	78
• Carry-over of farm and fishing losses*	f	f	f	f	f	f	f	78
• Capital loss carry-over*	23	17	26	31	11	10	11	79
• Carry-over of losses other than capital losses*	19	18	17	14	12	12	12	79
• Non-taxation of lottery and gambling earnings*	224	291	507	588	549	513	514	79
• Foreign tax credit*	11	22	21	23	20	19	19	79
• Credit for tax of another province	-	-	-	-	-	n.a.	n.a.	80
• Amounts exempt from tax under a tax agreement*	25	12	10	12	11	10	14	80
• Deduction for tax on forest operations*	f	f	f	f	f	f	f	129
• Environmental trust	f	f	f	f	f	f	f	123

TABLE 5
COST OF TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX
(Millions of dollars)

	Estimate				Projection			Reference
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**page Part II**
• Recovery of averaged income*	3	-	-	-	-	-	-	80
Sub-total: tax expenditures	***8 021***	***8 233***	***9 343***	***9 227***	***9 040***	***9 021***	***9 185***	
Sub-total: for information purposes	***7 424***	***8 040***	***8 610***	***8 678***	***8 167***	***8 055***	***8 209***	
TOTAL: PERSONAL INCOME TAX	**15 445**	**16 273**	**17 953**	**17 905**	**17 207**	**17 076**	**17 394**	

* A similar measure is offered in the federal tax system.
f The tax cost is less than $2 million.
n.a. The cost is not available because of insufficient or missing data.
\- The measure did not apply that year.
1 The tax expenditure related to the flat amount considers that the basic system includes, more specifically, the non-refundable tax credits for employment insurance contributions and to the QPP.
2 Includes the transfer between spouses of the basic credit, the other transfers being implicitly included in each measure.
3 Excluding $270 million in 2000 equivalent to a rise in the credit of $100 per adult.
4 Retroactive to 1997.
5 Starting in 1998, the cost of the transfer is included in each measure.
6 Excluding the transfer of non-refundable tax credits unused by a spouse.

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
INCOME TAX	**831**	**918**	**1 100**	**1 225**	**1 309**	**1 498**	**1 599**	
Reduced tax rates and exemptions [1]	***282***	***259***	***235***	***251***	***262***	***246***	***245***	
• Reduced tax rate for small businesses*	153	146	112	12	-	-	-	81
• Reduced tax rate for savings and credit unions*	f	6	6	5	5	5	6	81
• Partial inclusion of capital gains*	112	82	92	201	216	216	213	30
• Exemption of registered charities and non-profit organizations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	82
• Exemption of government organizations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	82
• Tax exemption regarding income earned from the administration and management of new investment funds	f	f	f	f	f	2	2	85
• Exemption of labour-sponsored funds	3	10	7	13	19	f	f	89
• Exemption of Capital régional et coopératif Desjardins	-	-	-	-	-	-	-	89
• Non-taxation of tax credits	14	15	18	20	22	23	24	90
Deductions	***21***	***24***	***27***	***36***	***33***	***33***	***34***	
• Deduction relating to resources*	5	3	7	7	7	8	8	90
• Deductibility of royalties paid to Indian bands*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	90
• Deductibility of gifts*	10	13	12	22	21	21	22	91
• Deduction for elgible business investment losses*	6	8	8	7	5	4	4	38
• Deductibility of countervailing and antidumping duties*	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	92
• Deductibility of allowances for earthquakes*	-	f	f	f	f	f	f	92

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
Refundable tax credits	***454***	***509***	***676***	***780***	***889***	***1 112***	***1 207***	
Promoting innovation	**353**	**375**	**460**	**591**	**645**	**766**	**854**	
i) Research and development	***347***	***351***	***419***	***503***	***475***	***497***	***517***	
• Scientific research and experimental development:								
- salaries of researchers	319	326	394	333	355	441	459	93
- university research	7	6	6	7	7	7	7	93
- other	21	19	19	26	23	28	29	93
• Super-deductions for R&D	-	-	-	119	60	-	-	93
• Credit based on the increase in R&D expenditures	f	f	f	18	30	21	22	94
ii) New economy	***6***	***24***	***41***	***88***	***170***	***269***	***337***	
• Design	6	6	7	7	6	8	8	95
• Production of multimedia titles	f	13	9	15	21	21	21	108
• CDTI	f	5	14	23	30	32	36	108
• Cité de la biotechnologie et de la santé du Montréal métropolitain	-	-	f	f	f	5	9	108
• Cité du multimédia	f	f	11	21	39	47	55	109
• CNNTQ	f	f	f	6	11	22	28	110
• CNE	f	f	f	4	21	39	51	110
• E-Commerce Place	f	f	f	12	39	65	76	111
• Technopôle Angus	f	f	f	f	f	2	2	112
• Cité de l'optique	f	f	f	f	3	3	3	117
• Biotechnologies (salaries)	-	-	-	-	-	-	-	112
• E-business activities	-	-	-	-	f	25	48	113
• Nutraceuticals and functional foods	-	-	-	-	f	-	-	114
• Innovation centres	-	-	-	-	f	-	-	114
Promoting investment	**f**	**5**	**51**	**31**	**76**	**167**	**181**	
i) Regions	***f***	***3***	***25***	***3***	***26***	***113***	***126***	
• Shipbuilding or conversion	f	3	25	3	10	10	10	101
• Vallée de l'aluminium	f	f	f	f	8	6	7	118
• Gaspésie and certain maritime regions of Québec	f	f	f	f	f	4	4	118
• Processing activities in resource regions	f	f	f	f	4	50	61	118
• Credit relating to resources	f	f	f	f	4	43	44	119

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
ii) Financial sector	***f***	***2***	***6***	***6***	***6***	***7***	***7***	
• Training period of young specialized employees of IFCs	f	f	f	f	f	f	f	102
• IFC canvassing expenses	f	f	f	f	f	f	f	103
• Canvassing expenses for a foreign investment fund	f	f	f	f	f	f	f	103
• Creation of investment funds	f	2	6	6	6	7	7	104
• Communications between corporations and investors	f	f	f	f	f	f	f	104
• Fund managers	f	f	f	f	f	f	f	105
• Hiring of junior financial analysts specializing in the securities of Québec corporations	f	f	f	f	f	f	f	105
• Hiring of junior financial analysts specializing financial derivatives	f	f	f	f	f	f	f	106
• Participation of investment dealers on the Nasdaq stock market	f	f	f	f	f	f	f	107
iii) Sectoral	***f***	***f***	***20***	***22***	***44***	***47***	***48***	
• Job creation in the clothing and footwear industry	f	f	8	10	14	2	f	102
• Railway companies	f	f	12	12	14	14	15	107
• Montréal Foreign Trade Zone at Mirabel								
- Salaries	f	f	f	f	f	f	3	116
- Brokerage contract	f	f	f	f	f	f	f	116
- Equipment	f	f	f	f	3	11	10	117
- Construction of buildings	f	f	f	f	13	20	20	117
Promoting culture	**74**	**74**	**93**	**93**	**101**	**110**	**114**	
• Québec film and television production*	74	74	93	93	93	93	93	96
• Film and television production services	f	f	f	f	f	f	f	98
• Dubbing	f	f	f	f	f	f	f	99

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Sound recording production	f	f	f	f	f	f	f	99
• Production of shows	f	f	f	f	f	5	7	99
• Eligible digital show	f	f	f	f	4	4	4	100
• Book publishing	-	f	f	f	4	8	10	101
Other tax credits	**27**	**55**	**72**	**65**	**67**	**69**	**58**	
• Technology adaptation services	f	f	f	f	f	f	f	94
• On-the-job internships	11	15	16	15	18	27	20	95
• Training	13	7	-	-	-	-	-	96
• Job creation	3	19	21	5	-	-	-	96
• Maintenance of racehorse	f	f	f	f	3	3	3	101
• Encourage Québec SMEs to adopt e-commerce solutions	f	f	f	5	12	5	f	112
• Use of less-polluting dry-cleaning technology	f	f	f	f	f	f	f	115
• Declaration of tips	f	14	35	40	34	34	35	115
• Tax paid by a trust for the environment	-	-	f	f	f	f	f	123
• Trust fund set up by operators of landfill sites	f	f	f	f	f	f	f	123
• Renewal of the taxi fleet	-	f	f	f	f	f	f	73
Deferrals	***74***	***126***	***162***	***158***	***125***	***107***	***113***	
• Expenses relating to resources:								
- accelerated amortization of Canadian exploration expenses	-	-	-	-	-	-	-	120
- accelerated amortization of Canadian development expenses	3	8	13	n.a.	n.a.	n.a.	n.a.	121
• Expenses relating to renewable energy and energy conservation in Canada*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	121
• Deduction of R&D capital expenditures*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	122

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Deductibility of land-holding expenses*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	122
• Rule on assets ready to be put into service*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	122
• Taxation of capital gains when realized*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32
• Immediate deduction of advertising expenses*	f	f	f	f	f	f	f	123
• Environmental trust	f	f	f	f	f	f	f	123
• Deferral using the billing-based accounting method for professionals*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	36
• Holdbacks on staggered payments to contractors*	f	f	f	f	f	f	f	124
• Agriculture and fisheries:								
- cash accounting method*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19
- flexibility in accounting for inventory*	-	-	-	-	-	-	-	19
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	71	118	149	158	125	107	113	124
Other tax expenditures	***f***	***f***	***f***	***f***	***f***	***f***	***f***	
• Non-taxation of investment income from life insurance policies*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	125
• Accelerated depreciation to help small businesses make their computer systems year 2000 compliant	-	n.a.	n.a.	-	-	-	-	126
• Non-taxation of life insurance companies on their income from foreign source*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	126

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Exemption from Québec tax of the profits of foreign air and marine transportation companies*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	126
• Federal aviation fuel excise tax rebate program*	n.a.	n.a.	n.a.	n.a.	-	-	-	126
• Tax assistance for the capitalization of the Réseau d'investissement social du Québec	f	f	f	f	f	f	f	127
Tax measures shown for information purposes	***289***	***304***	***316***	***426***	***316***	***337***	***302***	
• Tax depreciation (extra amount compared with accounting depreciation)*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	127
• Deduction of rebates of savings and credit unions and cooperatives*	n.a.	10	10	11	11	11	11	127
• Deferral of taxation of an eligible rebate	-	-	-	-	-	f	4	128
• Deferral of capital gains through various rollover provisions*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	128
• Deduction of entertainment expenses*	22	23	28	34	33	33	33	129
• Loss carry-over:								
- farm and fishing losses*	f	f	f	f	f	f	f	78
- capital losses*	4	27	29	24	33	33	33	79
- other than capital losses*	194	176	188	330	220	240	200	79
• Deduction for tax on forest operations*	5	9	13	7	7	8	8	129
• Deduction for investment corporations*	f	f	f	f	f	f	f	130
• Extra deduction for intangible fixed assets*	10	9	12	12	12	12	13	130
• Exemption of the active income of foreign subsidiaries of Canadian corporations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	131
• Refundable tax credit for losses	54	50	36	8	-	-	-	132

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
TAX ON CAPITAL[1]	**106**	**134**	**159**	**160**	**173**	**170**	**248**	
• Gradual exemption of the first $1 million dollars of paid-up capital	-	-	-	-	-	-	78	136
• Deduction of one-third of the paid-up capital of mining corporations	8	8	9	13	13	13	13	137
• Rate of 2% for life and health insurance premiums	55	55	55	56	57	58	58	137
• Exemption for cooperatives	18	14	12	12	12	12	11	138
• Exemption for corporations operating in the agriculture or fisheries sector	12	12	12	15	15	15	14	138
• Inactive corporations with assets of less than $5 000	f	f	f	f	f	f	f	139
• Exemption of government organizations, charities and other non-profit organizations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	139
• Mining corporation yet to reach the production stage	f	f	f	f	f	f	f	139
• Deduction for the acquisition or conversion of ships	f	f	f	f	f	f	f	139
• Holiday from the tax on capital for new investments in certain sectors	13	40	63	56	67	63	64	140
• Reduction in the paid-up capital of certain financial institutions	f	5	8	8	9	9	10	140
HEALTH SERVICES FUND[2]								**145**
TAX HOLIDAYS[3]	**42**	**44**	**54**	**94**	**157**	**197**	**248**	
• Five-year tax holiday for new corporations	35	33	41	70	81	57	58	82-132-141
• IFC	7	11	13	11	14	16	17	83-133-141
• CDTI	f	f	f	5	6	6	6	84-133-142
• Innovative projects of biotechnology development centres	-	-	f	f	f	f	f	84-133-142
• Montréal Foreign Trade Zone at Mirabel	-	-	f	f	f	37	56	86-134-142

TABLE 6
COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**page Part II**
• Support for the development of stock exchanges and securities clearing-houses corporations in Montréal	-	-	-	f	f	f	f	87-134-143
• Major investment projects	-	-	-	8	18	29	59	87-135-143
• Ten-year tax holiday for manufacturing SMEs in remote resource regions	-	-	-	-	38	52	52	88-136-144
Sub-total: tax expenditures	***979***	***1 096***	***1 313***	***1 479***	***1 639***	***1 865***	***2 095***	
Sub-total: for information purposes	***289***	***304***	***316***	***426***	***316***	***337***	***302***	
TOTAL: CORPORATE TAX SYSTEM	**1 268**	**1 400**	**1 629**	**1 905**	**1 955**	**2 202**	**2 397**	

* A similar measure is offered in the federal tax system.
f The tax cost is less than $2 million.
n.a. The cost is not available because of insufficient or missing data.
\- The measure did not apply that year.
1 The cost of some of these measures is presented in the section entitled “Tax holidays”.
2 All the measures relating to the Health Services Fund are presented in the section entitled “Tax holidays”.
3 The tax holidays apply to the three sources of corporate taxation: income tax, tax on capital and Health Services Fund.

TABLE 7
COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
QUÉBEC SALES TAX	**1 558**	**1 812**	**1 898**	**1 959**	**2 046**	**2 134**	**2 223**	
Zero-rated goods and services	***803***	***954***	***986***	***1 025***	***1 080***	***1 118***	***1 156***	
• Basic groceries*	618	733	757	783	829	856	882	147
• Prescription drugs*	55	68	70	74	78	82	86	147
• Medical devices*	14	18	18	19	20	21	22	147
• Books	29	34	35	37	38	40	41	148
• Hotel packages	3	f	f	f	f	f	f	148
• Financial services[1]	84	101	106	112	115	119	125	148
Exempt property and services	***441***	***523***	***559***	***570***	***580***	***598***	***627***	
• Rental accommodation*	277	324	331	336	341	353	370	149
• Sales of used residential buildings or personal use buildings*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	149
• Health care services*	62	77	84	89	93	96	102	149
• Educational services*	36	41	42	44	45	46	49	150
• Child care and personal care services*	42	53	52	51	48	48	48	150
• Standard municipal services*	n.a.	n.a.	20	19	21	22	23	150
• Municipal transit services*	24	28	30	31	32	33	35	151
• Ferries and road and bridge tolls*	f	f	f	f	f	f	f	151
Tax rebates	***284***	***302***	***318***	***330***	***352***	***382***	***402***	
• Rebates granted to public service bodies:								
- charities and certain non-profit organizations*	63	73	80	87	87	90	96	151
- schools, colleges, universities*	76	86	89	91	96	100	106	151
- hospitals*	43	50	60	61	66	68	72	151
- municipalities*	33	15	9	5	3	-	-	151
• Rebate granted to purchasers of new residential housing*	49	53	55	63	78	108	111	152
• Rebate granted to lessors of new residential property*	n.a.	n.a.	n.a.	3	9	10	11	152
• Rebate granted to foreign tourists*	20	25	25	20	13	6	6	152

TABLE 7
COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Rebate provided for automatic door openers for the use of disabled persons	f	f	f	f	f	f	f	153
Measures to facilitate QST administration	***30***	***33***	***35***	***34***	***34***	***36***	***38***	
• Exclusion of small suppliers from the field of application of the QST*	30	33	35	34	34	36	38	153
• Simplified accounting methods:								
- simplified method for charities*	f	f	f	f	f	f	f	153
- quick method for small businesses*	f	f	f	f	f	f	f	154
- quick method for qualifying public service bodies*	f	f	f	f	f	f	f	154
- simplified calculation methods of ITRs and partial QST rebates*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	154
Other tax expenditures	***f***	***f***	***f***	***f***	***f***	***f***	***f***	
• Non-taxable imports*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	155
• Exemption granted to the Société Saint-Jean-Baptiste de Montréal	f	f	f	f	f	f	f	155
Tax measures shown for information purposes	***33***	***35***	***43***	***47***	***47***	***49***	***52***	
• Entertainment expenses*	19	20	28	30	31	32	34	155
• Rebate granted to employees and partners*	14	15	15	17	16	17	18	156
TAX ON INSURANCE PREMIUMS	**262**	**272**	**290**	**312**	**332**	**346**	**359**	
• Exemption with respect to an individual policy of insurance of persons	185	190	204	218	231	239	246	156
• Reduction in the tax rate for automobile insurance	77	82	86	94	101	107	113	156
• Exemption with respect to certain compulsory insurance plans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	156

TABLE 7
COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
FUEL TAX	**151**	**157**	**191**	**194**	**180**	**184**	**191**	
• Reduction in the rate of the tax in certain regions	88	91	92	90	88	91	93	157
• Reduction in the rate of the tax for aircraft and railroad locomotives	63	66	60	56	49	51	54	157
• Exemptions and refunds granted to farmers and fishers	f	f	f	f	f	f	f	158
• Exemptions and refunds granted to the industrial sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	158
• Exemption and refund granted to the aviation sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	158
• Exemption for commercial vessels	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	159
• Exemption for propane gas	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	159
• Refund granted to farm, forest and mining businesses	n.a.	n.a.	34	36	30	28	30	159
• Reimbursement granted for public carriers	f	f	5	5	5	5	5	159
• Refund regarding fuel used to supply an engine for stationary purpose of the equipment of a vehicle	n.a.	n.a.	f	7	8	9	9	160
TAX AND DUTIES ON ALCOHOLIC BEVERAGES	**2**	**2**	**2**	**3**	**4**	**5**	**5**	
• Reduction in rates of the specific tax and duty regarding beer sold by microbreweries	2	2	2	3	4	5	5	160

TABLE 7
COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM
(Millions of dollars)

	Estimate					Projection		Reference
	1997	1998	1999	2000	2001	2002	2003	page Part II
• Reduction in rates of the specific tax and duty regarding alcoholic beverages sold by a small-scale producer	f	f	f	f	f	f	f	160
Sub-total: tax expenditures	*1 973*	*2 243*	*2 381*	*2 468*	*2 562*	*2 669*	*2 778*	
Sub-total: for information purposes	*33*	*35*	*43*	*47*	*47*	*49*	*52*	
TOTAL:								
CONSUMPTION TAXES	**2 006**	**2 278**	**2 424**	**2 515**	**2 609**	**2 718**	**2 830**	

* A similar measure is offered in the federal tax system.
f The tax cost is less than $2 million.
n.a. The cost is not available because of insufficient or missing data.
\- The measure did not apply that year.
1 Net effect of the zero-rating of financial services and the compensatory tax on financial institutions.

3. THE EVALUATION OF TAX EXPENDITURES

The evaluation of tax expenditures is one of the means at the government's disposal to measure the fiscal, economic and social impacts of tax relief measures in Québec's system. The process of establishing a tax expenditure consists in evaluating whether the measures implemented can attain their objectives.

The evaluation of tax expenditures is also useful for standardizing the evaluation of the various measures within a common analysis framework which is well-defined, yet flexible.

Prior to implementing a tax expenditure evaluation framework, tax expenditures have to be classified in correlation with evaluation objectives. The most common types of classification are based on the following criteria:

- the type of tax (for instance: personal income tax, corporate tax or sales tax);
- the general objectives of the tax system (for instance: fairness and progressivity) or specific objectives (for instance: health, retirement, studies);
- the recipient (for instance: households, businesses);
- the degree of similarity with program spending.

Québec's classification structure is based on three types: by type of tax, by general objective and by specific objective. In this type of structure, tax expenditures are already classified into homogenous groups and can thus be analyzed either individually or many at a time according to a specific objective.

While tax expenditures are evaluated case-by-case, an approach similar to the one used for program evaluation can be followed. Program evaluation, which studies the impact of government policy, seeks to assess the relevance (necessity), effectiveness (objectives compared to results), efficiency (means used compared to means available), performance (results compared to resources) and the impact (effect on target groups) of the policy under study.

Accordingly, to properly evaluate tax expenditures, it is desirable, where possible, to define indicators and set targets that are in harmony with the questions the evaluation is designed to answer.

A more detailed description of a tax expenditure classification and a framework of analysis is given in the 2001 edition of this publication.

CAUTION RESPECTING THE SYSTEMATIC EVALUATION OF TAX EXPENDITURES

Care is required when applying a systematic evaluation procedure to tax expenditures. Whereas standards may generally be applied to tax expenditures, i.e. their objectives and target groups, it is not always appropriate to apply specific indicators and targets. In particular, the objectives must not systematically be translated into quantifiable targets.

The tax expenditure procedure described above, especially data analysis, should not be construed as a rigid framework. For certain tax expenditures, it may be possible and even desirable to follow the procedure step by step. This might not be pertinent for other tax expenditures.

For example, the objective of the deduction for an artist regarding copyright income is to promote the creation of original works and the emergence of new talent. In the latter case, the attainment of a specified number of new talents is not a pertinent evaluation criterion for judging the impact of the measure. Conversely, certain tax expenditures are implemented with a view to creating jobs, and these jobs can be measured.

3.1 Additional information

This sub-section provides additional information concerning the refundable tax credit for lodging a parent.

– Tax credit for lodging a parent

Families traditionally provide support for elders. However, this has become more difficult to do than was the case previously creating, in the context of an aging population, pressure on the number of nursing home centres.

To help families support elders, a refundable tax credit for lodging a parent was introduced in the *1992-1993 Budget Speech*. The purpose of the credit is to recognize the social value of the gesture made by adults who lodge their parents.

A refundable amount of $550 is granted to a taxpayer for each qualified parent whom he lodges in the dwelling he occupies. For a taxpayer to be entitled to this tax credit, the parent must be 70 years of age or over, or 60 or over and suffering from a serious, prolonged mental or physical impairment, and, generally speaking, must have lived with the taxpayer for 12 consecutive months, at least six of them in the year in which the tax credit is requested.

For the purposes of the credit, the expressions "qualified parent" includes the father, the mother, the grandfather and the grandmother of the taxpayer or the taxpayer's spouse, and, since 2000, includes an uncle, aunt, great-uncle or great-aunt of the taxpayer or the taxpayer's spouse.

The cost of this credit has increased slightly since it was introduced, reflecting demographic trends. The estimate is based on the shortfall in terms of receipts for the government pursuant to the application of this measure.

TABLE 8
Number of admissible taxpayers and amount of the credit for lodging a parent – 1997 to 2002

Year	Number of admissible taxpayers (thousands)	Amount of the credit (millions of dollars)
1997	22	14
1998	24	14
1999	24	15
2000	26	16
2001	26	16
2002	27	16

The following charts provide a breakdown of admissible households to the credit for lodging a parent by age and household income.

In 2002, most households admissible to the credit were between 45 and 65 years old, the most likely to offer care to their parents. Their relative share is greater compared to that of other age brackets, as well as compared to their relative share of the total number of taxpayers.

While the credit for lodging a parent rewards the social gesture of care-givers regardless of their income, admissible households are more grouped in the lower and middle-income brackets. About 85% of households that claimed the credit are in the under $80 000 income bracket. It should be borne in mind that these breakdowns are influenced by the general distribution of households by income bracket.

CHART 1
BREAKDOWN OF THE TOTAL NUMBER OF HOUSEHOLDS AND OF ADMISSIBLE HOUSEHOLDS TO THE CREDIT FOR LODGING A PARENT BY AGE, 2002
(Per cent)

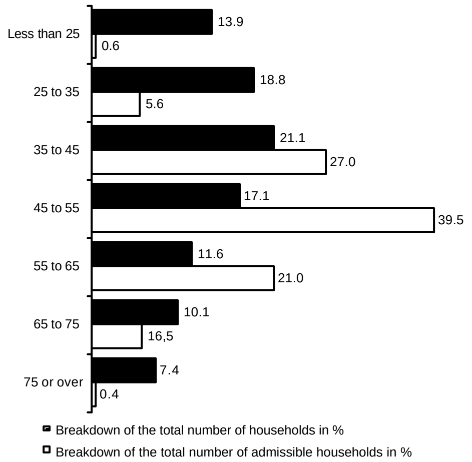
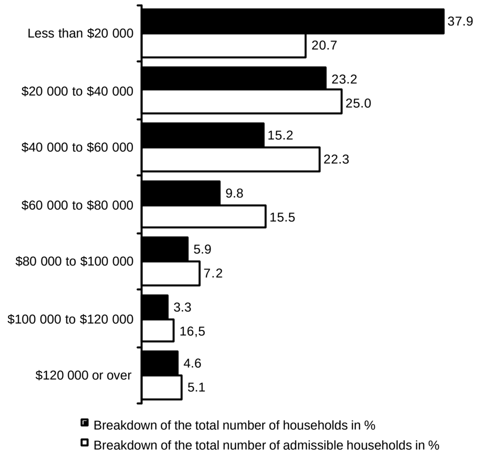


CHART 2
BREAKDOWN OF THE TOTAL NUMBER OF HOUSEHOLDS AND OF ADMISSIBLE HOUSEHOLDS TO THE CREDIT FOR LODGING A PARENT BY INCOME, 2002
(Per cent)



LIST OF TABLES, ILLUSTRATIONS AND CHARTS – PART I

Part II

Description of tax expenditures

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1. TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX

1.1 Replacement of some tax expenditures by a flat amount

Since 1998, Québec taxpayers who make little use of tax expenditures can opt for the simplified tax system. Essentially, the simplified tax system replaces several deductions and non-refundable tax credits by a flat amount that is converted into non-refundable tax credit at the rate of 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

For 1998, the flat amount is $2 350. For years following 1998, the flat amount corresponds to the greater of the flat amount allowed in calculating the tax otherwise payable for the preceding year (indexed as of 2002) and, subject to an adjustment to the nearest multiple of $5, the amount obtained by adding $250 to the total maximum contributions of an employee to the Québec Pension Plan (QPP) and employment insurance for the year.

For years prior to 2003, the flat amount, in addition to replacing almost all the deductions the tax system allows in calculating an individual's taxable income as well as various non-refundable tax credits, replaces many deductions allowed in calculating an individual's net income. Starting in 2003, none of the deductions allowed in calculating net income is replaced by the flat amount.

The following table lists the deductions that are replaced by the flat amount in the order in which they are shown in this section and indicates the years for which the replacement is made.

TABLE 1
DEDUCTIONS REPLACED BY THE FLAT AMOUNT

Deductions in calculating net income or taxable income	Years replacement effective
Repayment of student loans contracted under the SLPW	1998 to 2002
Lifetime $500 000 capital gains exemption on farm assets	1998 and following
Lifetime $500 000 capital gains exemption on fishing assets	2002 and following
Deduction for an artist regarding copyright royalties	1998 and following
Deduction for foreign producers	2001 and following
Deduction regarding a home relocation loan	1998 and following
Deduction for workers employed abroad	1998 and following
Deductions for stock options granted to employees	1998 and following
Deduction for options to purchase units of a mutual trust fund	1998 and following
Deduction respecting the donation of securities acquired under a stock option	2000 and following
Deduction for eligible business investment losses	1998 to 2002
Lifetime $500 000 capital gains exemption on shares of small businesses corporation shares	1998 and following

Tax holiday for foreign post-doctoral interns	1998 and following
Worker gain profit-sharing plan	1998 to 2000
Deduction for certain flow-through share issue expenses	1998 and following
Deduction for a Stock Savings Plan (SSP)	1998 and following
Flow-through shares - basic deduction of 100%	1998 to 2002
Flow-through shares - additional deduction of 25%	1998 and following
Flow-through shares - additional deduction of 50%	1998 and following
Deduction respecting Québec Business Investment Companies (QBICs)	1998 and following
Additional capital gains exemption for certain assets relative to resources	1998 and following
Deduction relating to the Cooperative Investment Plan	1998 to 2001
Tax holiday for foreign researchers (R&D)	1998 and following
Tax holiday for foreign experts	1999 and following
Tax holiday for Québec seamen	1998 and following
Tax exemptions for the employees of an international financial centre (IFC)	1998 and following
Tax holiday for foreign experts employed by a securities exchange or securities clearing corporation	2000 and following
Deduction for a member of a partnership that operates an IFC	1998 and following
Deduction for independent financial derivatives traders	2001 and following
Tax holiday for foreign specialists working for a corporation that carries out an innovative project in certain designated sites	1998 and following
Tax holiday for foreign specialists working in certain designated biotechnology sites	2002 and following
Tax holiday for foreign specialists working in the nutraceutical and functional foods sector	2002 and following
Tax holiday for foreign specialists working in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or a new economy centre	2000 and following
Tax holiday for foreign specialists working in innovation centres	2002 and following
Tax holiday for foreign experts working in E-Commerce Place	2000 and following
Tax holiday for foreign specialists working in the e-business sector in certain designated sites	2002 and following
Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel	1999 and following
Tax holiday for foreign professors	2000 and following
Deductions for inhabitants of remote regions	1998 to 2002
Deduction for alimony and support allowance	1998 to 2002
Deduction for employees of certain international governmental organizations	1998 and following
Deduction of moving expenses	1998 to 2002
Deferral of taxation of an eligible rebate	2002 and following
Deduction of certain expenses incurred to earn investment income	1998 to 2002
Deduction of farm losses of part-time farmers	1998 and following
Carry-over of farm and fishing losses	1998 and following
Capital loss carry-over	1998 and following
Carry-over of losses other than capital losses	1998 and following
Amounts exempt from tax under a tax agreement	1998 to 2002

The following table lists the non-refundable tax credits that have been replaced by the flat amount in the order in which they are shown in this section and indicates the years for which the replacement is made.

TABLE 2
NON-REFUNDABLE TAX CREDITS REPLACED BY THE FLAT AMOUNT

Non-refundable tax credits	Years replacement effective
Tax credit for dues to artistic associations	1998 and following
Tax credit for tuition or examination fees	1998 and following
Tax credit regarding interest paid on a student loan	1998 and following
Tax credit for members of a religious order	1998 and following
Tax credit for medical expenses	1998 to 2002
Tax credits relating to medical care not provided in the region of residence	1998 to 2002
Tax credit for employment insurance contributions	1998 and following
Tax credit for contributions to the Québec Pension Plan	1998 and following
Tax credit for union and professional dues	1998 and following
Dividend tax credit	1998 and following
Foreign tax credit	1998 to 2002

1.2 Full indexation of the income tax system as of January 1, 2002

Starting January 1, 2002, the main parameters of the personal income tax system are automatically indexed.

The applicable adjustment factor corresponds to the percentage change in the average Québec consumer price index (QCPI) for the 12-month period ended September 30 of the year preceding the one for which an amount is to be indexed, compared to the average QCPI for the 12-month period ended September 30 of the taxation year prior to the year preceding the one for which an amount is to be indexed.

This adjustment factor is generally applied, for a year, to the established value of indexed parameters in the previous taxation year.

Automatic indexing applies to all three taxable income brackets in the tax table and to the various family income brackets defined in the rate table used to calculate the refundable tax credit for child care expenses.

The other tax parameters that are automatically indexed are shown in the table below.

TABLE 3
TAX PARAMETERS SUBJECT TO AUTOMATIC INDEXATION
(Dollars per year)

Parameters	Amount in 2001
Essential amounts for the purposes of calculating certain tax credits	
Basic amount	5 900
Amount for a person living alone	1 050
Amount for spouse	5 900
Amount respecting dependent children	
— 1st child	2 600
— 2nd and subsequent children	2 400
— single-parent family	1 300
— children engaged in post-secondary studies (per session, maximum two)	1 650
Amount respecting other dependants	2 400
Amount respecting other dependants with an infirmity	5 900
Reduction threshold for certain tax credits[1]	26 000
Parameter of certain refundable tax credits	
Refundable tax credit for medical expenses	
— maximum amount	500
— reduction threshold	17 500
QST credit	
— basic amount	154
— amount for spouse	154
— amount for a person living alone	103
Tax credit for individuals living in a northern village	
— basic monthly amount	35
— monthly amount respecting a spouse	35
— monthly amount respecting dependant	15
Real estate tax refund	
— maximum allowable taxes	1 285
— taxes deducted per adult	430

1. Tax credit for persons living alone, with respect to age and for retirement income, tax reduction in respect of families, Québec sales tax (QST) credit, tax credit for individuals living in a northern village and real estate tax refund.

In general, if the result obtained by applying the indexing factor to a given parameter is not a multiple of $5, it is rounded off to the nearest multiple of $5, or, where it is halfway between two such multiples, rounded up the nearest multiple of $5.

However, certain parameters are unaffected by an adjustment to the nearest multiple of $5. Therefore, in the case of the following parameters, adjustment is made to the nearest multiple of $1 or, if the result is equidistant between two multiples of $1, to the nearest higher multiple of $1:

– amount of $154 (in the case of an individual or the individual's spouse) or $103 (in the case of a person living alone), for the purpose of calculating the QST credit;

– monthly amount of $35 (in the case of an individual or the individual's spouse) or $15 (in the case of a dependant), for the purpose of calculating the tax credit for individuals living in northern villages.

The flat amount under the simplified tax system is also set so as to protect taxpayers' purchasing power.

1.3 Tax measures ensuring fairness

– Tax credits regarding essential needs

• For spouses (1988 to 2002, was previously an exemption)

A taxpayer who provides for his spouse is entitled to a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $5 900 (1997 to 2001) and $6 060 (2002), which is reduced by the spouse's income. The amount thus reduced is converted into a tax credit at rates of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (2002).

For the purposes of this tax credit, the expression "spouse" means a married person, a *de facto* spouse of the opposite sex and, since 1999, a same-sex *de facto* spouse.[1]

This tax credit is intended to ensure that the income devoted by taxpayers to meeting the essential needs of their spouse is not taxed, where their spouse is their dependant. It makes it possible to integrate income security transfers and taxation.

For 1998 to 2000, the tax credit for spouses is granted solely in conjunction with the general tax system. For 2001 and 2002, the tax credit for spouses may also be claimed in conjunction with the simplified tax system, if the person claiming the tax credit or the person for whom the tax credit is claimed died in the year.

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[1] Since 1998, this tax credit has applied to same-sex *de facto* spouses who have made the election stipulated in section 144 of the *Modernization of Benefits and Obligations Act* (Statutes of Canada).

Taxpayers who determine their tax payable for a year prior to 2003, under the rules governing the simplified tax system and have a spouse at the end of such year, can claim a deduction, in calculating their tax payable, equal to the amount of non-refundable tax credits their spouse does not use to eliminate their tax payable under the rules governing this system.

Starting in 2003, the tax credit for spouses is replaced by a mechanism for the transfer of the unused portion of non-refundable tax credits from one spouse to the other, regardless of whether the individual and his or her spouse calculate their respective income tax payable under the general or the simplified tax system.

- **For a person living alone (1988, existed in the form of an exemption in 1987 only)**

The tax system grants a non-refundable tax credit to a person living alone or only with dependent children, calculated on the basis of an amount of recognized essential needs of $1 050 that will be automatically indexed as of 2002, that reduces with income.

For 1997, the amount of $1 050 used as a basis for calculating this tax credit was reduced at the rate of 15% for each dollar of the taxpayer’s net income in excess of $26 000. The amount so reduced was converted into a tax credit at the rate of 20%.

Starting in 1998, the recognized amount for a person living alone has been combined with the $1 000 for retirement income and $2 200 in respect of age and the combined amount is reduced only once. The rate of this reduction is 15% for each dollar of the taxpayer’s family income, i.e. the taxpayer’s net income and, as the case may be, that of his eligible spouse, determined for the years prior to 2003, according to the rules governing the simplified tax system, that exceeds $26 000 (this amount is automatically indexed as of 2002). The total of these amounts thus reduced is converted into a tax credit at the conversion rate stipulated for the year.

To receive this tax credit for a year, a person must ordinarily live throughout the year or, since 2001, throughout the portion of the year preceding the time of death, a self-contained domestic establishment in which no one, other than a dependent child, lived during that period.

TABLE 4
PARAMETERS USED TO DETERMINE THE TAX CREDIT RESPECTING PERSONS LIVING ALONE

Taxation year	1998	1999	2000	2001	2002	2003
Recognized amount	$1 050	$1 050	$1 050	$1 050	$1 080	$1 095
Reduction threshold	$26 000	$26 000	$26 000	$26 000	$26 700	$27 095
Conversion rate	23%	23%	22%	20.75%	20%	20%

The tax credit for a person living alone is intended to recognize the additional needs, compared with those of a two-adult household, arising from the occupation of a dwelling or a residence by a person living alone or a single-parent family, e.g. rent, telephone expenses, electricity and other expenses that couples can share.

- **For dependent children**

The tax system grants a non-refundable tax credit to a taxpayer with one or more dependent children, calculated on the basis of a set of amounts of recognized essential needs for each dependent child, from which the child's income must be subtracted. The amount of the tax credit for dependent children is obtained by applying the conversion rate stipulated for the year to the total of the amounts thus calculated for each child.

For the purposes of this tax credit, the child, grandchild, sister, brother, niece or nephew of the taxpayer or his spouse is considered a child of the taxpayer, if he is under 18 years of age, or is 18 or over and a full-time student.

- **Amounts for dependent children (1988, existed previously as an exemption)**

An amount of recognized essential needs of $2 600 that will be automatically indexed as of 2002, is allowed for the first dependent child, regardless of the child's rank in the family. For each of the family's other children, a recognized amount of essential needs, $2 400, that will be automatically indexed as of 2002, is allowed.

This component of the tax credit for dependent children is intended to avoid taxing the income that a taxpayer devotes to satisfying the essential needs of his dependent children. It makes it possible to integrate transfer programs and taxation.

- **Amount for the first child of a single-parent family (1988, was previously an exemption)**

An amount of recognized essential needs of $1 300 that will be automatically indexed as of 2002, is allowed for the child of a single-parent family designated as the first child for the purpose of the tax credit for dependent children.

This component of the tax credit for dependent children recognizes the greater essential needs of the first dependent child in a single-parent family in relation to the needs of the first child of a couple (50% higher) and shields from taxation the income that the head of a single-parent family devotes to covering these additional expenses. It makes it possible to integrate transfer programs and taxation.

- **Amount for children engaged in post-secondary studies (1988, previously existed since 1986 in the form of an exemption)**

An amount of recognized essential needs of $1 650 that is automatically indexed as of 2002, is granted for a dependent child engaged in certain full-time study programs for each term completed (maximum of two sessions per year).

Until 1999, only full-time post-secondary study programs were recognized for the purpose of this amount. Since 2000, this amount is also allowed in respect of children engaged full-time in certain vocational training programs at the secondary level.

This component of the tax credit for dependent children is intended to provide tax relief to parents whose children are engaged in secondary vocational studies or post-secondary studies, by recognizing that such children's financial needs are essentially the same as those of an adult.

TABLE 5
PARAMETERS USED TO DETERMINE THE TAX CREDIT RESPECTING DEPENDENT CHILDREN

Taxation year	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Amount respecting 1st child	$2 600	$2 600	$2 600	$2 600	$2 600	$2 670	$2 710
Amount respecting child of single-parent family	$1 300	$1 300	$1 300	$1 300	$1 300	$1 335	$1 355
Amount respecting other children	$2 400	$2 400	$2 400	$2 400	$2 400	$2 465	$2 500
Amount respecting post-secondary studies (per session)	$1 650	$1 650	$1 650	$1 650	$1 650	$1 695	$1 720
Conversion rate	20%	23%	23%	22%	20.75%	20%	20%

- **For other dependants (1988, existed previously as an exemption)**

The tax system grants a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $2 400 that will be automatically indexed as of 2002, to a taxpayer with a dependant 18 years old or over to whom he is related by blood ties, marriage or adoption. The amount of the dependant's recognized essential needs, from which the dependant's income must be subtracted, is converted into a tax credit by applying the conversion rate stipulated for the year to the amount thus reduced.

However, when such a person is the taxpayer's responsibility because of a mental or physical infirmity, this tax credit was replaced by a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $5 900 that will be automatically indexed as of 2002, from which the dependant's income must be subtracted.

These tax credits are intended to avoid taxing the income that a taxpayer devotes to satisfying the essential needs of a person 18 years of age or over who is a dependant.

TABLE 6
PARAMETERS USED TO DETERMINE THE TAX CREDITS RESPECTING OTHER DEPENDANTS

Taxation year	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Amount respecting other dependants	$2 400	$2 400	$2 400	$2 400	$2 400	$2 465	$2 500
Amount respecting other dependants with an infirmity	$5 900	$5 900	$5 900	$5 900	$5 900	$6 060	$6 150
Conversion rate	20%	23%	23%	22%	20.75%	20%	20%

– **Tax credit relating to the flat amount of the simplified tax system (1998)**

In order to enhance the fairness of the tax system for the majority of taxpayers who benefit to a limited extent from tax expenditures, a new simplified tax system was introduced in 1998. Essentially, the simplified tax system replaces several deductions and non-refundable tax credits by a flat amount.

Tables 1 and 2 list the deductions and non-refundable tax credits that have been replaced by the flat amount.

Among the deductions and non-refundable tax credits that have been replaced by the flat amount, the tax credit for employee contribution to the Québec Pension Plan (QPP) and the tax credit for employee contributions to employment insurance are, for many taxpayers, the only two tax credits they must forego to use the simplified tax system. The other deductions and non-refundable tax credits replaced by the flat amount generally affect few taxpayers.

To ensure that the vast amount of taxpayers enjoy the benefits of the simplified tax system, the flat amount was originally set at $2 350, i.e. an amount $250 higher than the total maximum contributions of an employee to the QPP and employment insurance for 1997. For 1998, the flat amount, converted to a non-refundable tax credit at the rate of 23%, allowed a tax reduction of $541 per taxpayer.

For each year from 1999 to 2001, the flat amount corresponds, subject to an adjustment to the nearest multiple of $5, to the amount obtained by adding $250 to the total maximum contributions of an employee to the QPP and employment insurance for the year. The flat amount that stands at $2 430 (1999), $2 515 (2000) and $2 625 (2001), is converted into a non-refundable tax credit at the rate of 23% (1999), 22% (2000) and 20.75% (2001).

Starting in 2002, to protect taxpayers' purchasing power, the flat amount, for a year, corresponds to the greater of the following amounts, adjusted to the nearest multiple of $5:

- the amount obtained by multiplying the flat amount allowed in the calculation of tax otherwise payable for the preceding year by the indexing factor applicable for the year;

- the amount obtained by adding $250 to the total of an employee's maximum QPP contributions and maximum employment insurance contributions for the year.

The flat amount thus determined ($2 780 in 2002 and $2 870 in 2003) is converted into a non-refundable tax credit at the rate of 20%.

- **Transfer of non-refundable tax credits not used by a spouse (1998)**

For 1998 to 2002, a taxpayer who determines his tax payable according to the rules of the simplified tax system may deduct, in the calculation of his tax payable, the amount of non-refundable tax credits that his spouse has not used in order to eliminate his tax payable, provided that the spouse's tax payable is determined according to the same rules.

The following non-refundable tax credits are taken into consideration in respect of the application of this transfer:

- basic tax credit;
- the tax credit relative to the flat amount;
- tax credit for dependent children;
- tax credits for other dependants;
- tax credit with respect to age, for a person living alone and for retirement income;
- tax credit for a person suffering from a severe and prolonged mental or physical impairment;
- tax credit for donations;
- tax credit for contributions to authorized political parties;
- tax reduction in respect of families;
- the tax credit relating to a labour-sponsored fund;
- tax credit in respect of the acquisition of shares of Capital régional et coopératif Desjardins (since 2001).

This tax shifting was intended to allow households that benefit little from tax expenditures to take full advantage of the non-refundable tax credit granted.

Starting in 2003, an individual can deduct, in calculating his tax payable, the portion of non-refundable tax credits, other than that attributable to the deduction for alternative minimum tax, that cannot be used to reduce the income tax otherwise payable by the individual's eligible spouse, regardless of whether the individual and his or her spouse calculate their respective income tax payable under the general or the simplified tax system.

The transfer of the unused portion of non-refundable tax credits from one spouse to another is designed to enable households to take full advantage of the non-refundable tax credits to which each spouse in a couple is entitled.

– **Support for families and work incentive**

- **Tax reduction in respect of families (1988 to 1997)**

A tax reduction, the amount of which decreases gradually beyond a certain income threshold, is granted to families with at least one child. For 1997, the maximum amount of this tax reduction, which declined at a rate of 4.7% for each dollar of total family income in excess of this threshold, was:

- $1 500, in the case of a couple;
- $1 195, in the case of a single-parent family not sharing a dwelling with another adult;
- $970, in the case of a single-parent family sharing a dwelling with another adult.

The income threshold at which the maximum amount of this tax reduction diminished gradually corresponded approximately to the zero tax threshold and depended on the family's situation and the threshold at which the family was no longer eligible for assistance under the Parental Wage Assistance (PWA) program, set up by the government to provide low-income families with additional financial support.

Starting in 1998, the maximum amount of the tax reduction for families has been reduced at the rate of 6% (1998 and 1999), 5% (2000) and 3% (as of 2001) for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his eligible spouse determined, for years prior to 2003, according to the rules governing the simplified tax system, that exceeds $26 000 (1988 to 2001), $26 700 (2002) and $27 095 (2003). This maximum amount is:

– $1 500, in the case of a couple;

– $1 195, in the case of a single-parent family, whether or not it is sharing a dwelling with another adult.

This measure is intended to encourage low-income earners with dependent children to enter and remain on the labour market.

- **Family allowances (1989)**

From January 1, 1989 to September 1, 1997, when the new Québec family allowances were implemented, allowances paid by the Régie des rentes du Québec to Québec families with one or more children under 18 years of age were treated as a tax expenditure.

This universal assistance, which was paid in the form of a refundable tax credit, comprised a basic family allowance, an allowance for young children and an allowance for new-born children, the amount of which varied according to the child's rank in the family, and an allowance for disabled children.

Family allowances were intended to provide families with financial support. The adjustment of the basic family allowance according to the child's rank in the family was harmonized with assistance of last resort and the Canada Child Tax Benefit

Since September 1, 1997, the new Québec family allowance, which has replaced, in particular, the basic family allowance, the allowance for young children and the allowance for new-born children in respect of children born or placed for adoption in a family after September 30, 1997, is no longer universal in nature. The new allowance, which is intended to cover the essential needs of the children of low-income families, is established according to family income, the number of children and the type of family, i.e. single - or two - parent.

Moreover, only allowances for new-born children in respect of children born or placed for adoption in a family prior to October 1, 1997 are being paid in the form of a refundable tax credit until 2002. The other two types of allowances paid by the Régie des rentes du Québec, i.e. the allowance for disabled children and the new Québec family allowance, are accounted for as a budgetary expenditure.

The following table indicates the amounts of the allowances payable in the form of a refundable tax credit.

TABLE 7
FAMILY ALLOWANCES PAID IN THE FORM OF A REFUNDABLE TAX CREDIT

Rank of the child	Allowances for new-born children	Monthly allowances for children			
		under 6 years of age		between 6 and 17 years of age	
1st	$500	Basic family: For young children:	$10.91 $ 9.77 $20.68	Basic family: $10.91	
2nd	$1 000, i.e. $500 at birth and $500 on the child's first birthday	Basic family: For young children:	$14.54 $19.53 $34.07	Basic family: $14.54	
3rd	$8 000 (in 20 quarterly payments of $400)	Basic family: For young children:	$18.18 $48.83 $67.01	Basic family: $18.18	
4th and subsequent	$8 000 (in 20 quarterly payments of $400)	Basic family: For young children:	$21.78 $48.83 $70.61	Basic family: $21.78	
All ranks		For disabled children:	$119.22	For disabled children: $119.22	

- **Refundable tax credit for child care expenses (1994, existed previously in the form of a deduction)**

Child care expenses paid to enable a taxpayer or another supporting person of a child (usually the taxpayer's spouse) to work or study or, since 2000, actively seek employment, can be converted into a refundable tax credit at a rate that is established according to household income.

For 1997, the taxpayer's total income, essentially the taxpayer's net income and that of his spouse reduced by the amount of recognized essential needs, was used to establish the rate of this tax credit. For 1998 and 1999, the rate was established according to the amount in excess of $26 000 of the taxpayer's family income, i.e. the taxpayer's net income and that of his spouse calculated according to the rules applicable to the simplified tax system.

Depending on the level of household income, the rate of the tax credit applied to eligible child care expenses was determined using a table with 23 income brackets and ranged from 75% to 26.4% (1997) and from 75% to 26% (1998 and 1999).

Since 2000, the applicable rate depends on the taxpayer's family income, i.e. the taxpayer's net income and that of his spouse calculated, for years prior to 2003, according to the rules of the simplified tax system. If a taxpayer's family income does not exceed $27 000, the applicable rate is 75%. Thereafter, the rate falls by one percentage point per $1 000 of income, as long as the taxpayer's family income does not exceed $75 000. When the taxpayer's family income exceeds $75 000, the rate applicable for purposes of calculating the tax credit is 26%. Each of the fifty family income brackets used to determine the rate of the tax credit is automatically indexed as of 2002.

All expenses incurred to provide an eligible child (i.e. a child who is under 16 years of age during the year or who is a dependant because of a mental or physical impairment) with child care services offered by an individual, a day care centre, a boarding school or a resident camp are, subject to certain exclusions, deemed to be eligible child care expenses. Since 1997, these exclusions include the reduced parental contribution set by the government in order to benefit from educational or child care services.

However, the amount of child care expenses eligible for this tax credit is subject to certain limits. On the one hand, it may not exceed the total of the following amounts:

– $5 000 (1997 and 1998), $7 000 (1999) and $10 000 (since 2000) per eligible child with a severe and prolonged mental or physical impairment;

– $5 000 (1997 and 1998) and $7 000 (since 1999) per eligible child under 7 years of age at the end of the year (other than a child with a severe and prolonged mental or physical impairment);

– $3 000 (1997 and 1998) and $4 000 (since 1999) for any other eligible child.

On the other hand, when a taxpayer is the only person to assume the cost of a child's maintenance, the amount of eligible child care expenses is limited by the taxpayer's earned income. Otherwise, the amount of the expenses is limited by the earned income of the person assuming the cost of the child's maintenance that is the lowest, unless the income in question is earned by a person suffering from certain disabilities or engaged in studies.

Essentially, for the application of this tax credit, earned income comprises employment income, scholarships and research grants, and disability benefits and, since 2000, employment insurance benefits. However, earned income may be replaced by net income to serve as a limit on the amount of eligible child care expenses if the taxpayer or the person assuming the cost of the child's maintenance is engaged in studies.

For years prior to 1999, the person assuming the cost of the child's maintenance whose earned income is the lowest should usually request the refundable tax credit for child care expenses. Starting in 1999, the total amount of each spouse's eligible child care expenses is covered by a single tax credit that may be shared by them.

The tax credit for child care expenses is intended to recognize the work-related expenses for the parents.

- **Refundable tax credit for adoption expenses (1994)**

A taxpayer who adopts a child is entitled to a refundable tax credit equivalent to 20% (1997 to 1999), 25% (2000) and 30% (since 2001) of the eligible adoption expenses that he or his spouse pays if the adoption process is completed. However, the amount of adoption expenses eligible for this tax credit was limited to $10 000 (1997 and 1998), $15 000 (1999 and 2000) and $20 000 (since 2001). The amount of the tax credit available to a taxpayer who adopts a child could not exceed $2 000 (1997 and 1998), $3 000 (1999), $3 750 (2000) and $6 000 (since 2001).

Eligible adoption expenses include, in particular, legal and extrajudicial costs to obtain an adoption order, travel and living expenses incurred by the parents to go to the child's country of origin in order to bring the child to Québec, and amounts charged by the foreign institution having supported the child.

The refundable tax credit for adoption expenses is intended to recognize the contribution of adopting families to Québec society.

- **Refundable tax credit for the treatment of infertility (2000)**

A taxpayer who seeks certain medical treatments to become a parent is entitled to a refundable tax credit equal to 25% (2000) and 30% (since 2001) of costs associated with artificial insemination or *in vitro* fertilization paid by him or his spouse. However, the amount of the expenses that qualify for this tax credit is limited to $15 000 (2000) and $20 000 (since 2001). The amount of the tax credit available to a taxpayer who uses medical means to become a parent may not exceed $3 750 (2000) and $6 000 (since 2001).

The expenses that qualify for this tax credit include, in particular, amounts paid to a physician or a licensed private hospital and amounts paid for medication prescribed by a physician and recorded by a pharmacist.

The refundable tax credit for the treatment of infertility is designed to recognize the costs borne by infertile couples who wish to start a family.

- **Non-taxation of benefits paid under the SLPW and deduction of the repayment of student loans (1992)**

The SLPW (Subsidy and Loan Program for Workers) offers financial assistance to individuals who withdraw temporarily from the labour market in order to pursue occupational training leading to a secondary school or college diploma. The financial assistance is paid in the form of a loan guaranteed by the government and in the form of a training allowance.

The training allowance is tax exempt but, for 1997, had to be taken into consideration in the calculation of total income used to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for the QST, the tax credit for child care expenses, and the real estate tax refund.

Moreover, a taxpayer who contracts a student loan under the SLPW may deduct the full amount of the portion of this debt (principal and interest) that he repays during the year.

The non-taxation of training allowances paid under the SLPW and the deduction pertaining the repayment of student loans (principal and interest) are intended to financially support individuals who temporarily leave the labour market in order to engage in individual occupational training by reducing fluctuations in their income during and after the training.

1.4 Others tax measures promoting a progressive tax system

- **Real estate tax refund (1979)**

Property taxes, i.e. municipal and school taxes paid by the owner-occupant, tenant or sub-tenant of an eligible dwelling and which are included in the rent of tenants or sub-tenants, may be subject to a refund equivalent to 40% of the portion of the total of such taxes that exceeds the an amount of $430 per adult, which will be automatically indexed as of 2002.

However, the amount thus calculated may not exceed 40% of the maximum eligible taxes, set at $1 285 (which is indexed automatically as of 2002). Moreover, the amount of the real estate tax refund is reduced gradually according to household income. For 1997, the reduction was made at the rate of 3% for each dollar of total household income exceeding a certain threshold, which usually corresponded to the tax threshold for the taxpayer’s type of household.

Since 1998, the amount of the real estate tax refund has been reduced at the rate of 3% for each dollar of the taxpayer’s family income, i.e. the taxpayer’s net income and, as the case may be, that of his eligible spouse determined, for years prior to 2003, according to the rules of the simplified tax system, exceeding a single threshold of $26 000 (this amount is automatically indexed as of 2002).

TABLE 8
PARAMETERS USED TO DETERMINE THE REAL ESTATE TAX REFUND

Taxation year	1997 to 2001	2002	2003
Amount per adult	$430	$440	$445
Amount of eligible taxes	$1 285	$1 320	$1 340
Reduction threshold	$26 000	$26 700	$27 095

The real estate tax refund makes it possible to reduce the property tax burden supported by low - and middle - income earners.

- **Retroactive flat payments (1990)**

A taxpayer who receives certain flat payments, part or all of which pertain to a previous year, may use a special mechanism to calculate the tax payable on these payments. The mechanism makes it possible to pay the tax in respect of these retroactive payments as if they had been received during the year to which they pertain.

To qualify for this mechanism, the retroactive payments received in a year must total at least $300 and represent a benefit paid under the *Act respecting the Québec Pension Plan*, the *Canada Pension Plan* or the federal employment insurance legislation, support payment arrears or any other similar retroactive payment which, if taxed in the year it is received, would result in an undue additional tax burden, as well as an employment income received pursuant to a judgement, arbitration ruling or contract by which the parties settle a lawsuit.

Through this measure, taxpayers avoid paying in respect of the foregoing retroactive payments higher taxes than they would have had to pay if the payments had been received and taxed continuously during each of the years in which they were payable.

- **Refundable tax credit for the Québec sales tax (QST) (1991)**

A taxpayer may take advantage of a refundable tax credit for the QST, the calculation of which is carried out in two steps. The first step consists in determining the maximum amount of the tax credit to which the taxpayer may be entitled in light of his family circumstances. This amount is equivalent to the total, as the case may be, of the amounts indicated in the following table.

TABLE 9
MAXIMUM AMOUNT OF THE TAX CREDIT FOR THE QST
(Dollars)

Taxation year	1997[1]	1998 to 2001[2]	2002	2003
Amount for an adult	104	154	158	160
Amount for a person living alone	53	103	106	108
Amount for each dependent child[3]	21	n/a	n/a	n/a
Amount for a single-parent family[3]	12	n/a	n/a	n/a

1. For 1997, an additional tax credit of up to $50 for an adult and $50 for a person living alone was paid in August 1998 to take into account changes made in the QST system.
2. When the amount determined for taxation year 2000 in respect of an individual exceeded zero, or would have exceeded zero in a case where the individual was an income security recipient, if the monthly instalments of the QST credit received in advance had not been applied in deduction, that individual received an increase in the amount of $200 if he had a spouse at the end of 2000, or an increase of $100 in any other case.
3. Since September 1, 1997, the portion of the tax credit for the QST attributable to a child has been integrated into the scale of the new Québec family allowance.

The second step consists in reducing, as the case may be, the maximum amount in light of total household income. For 1997, the maximum amount was reduced at the rate of 3% for each dollar of total family income exceeding a certain threshold, which usually corresponded to the tax threshold for the taxpayer's type of household. Since 1998, this amount has been reduced at a rate of 3% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his eligible spouse determined, for years prior to 2003, according to the rules governing the simplified tax system, which exceeds a single threshold of $26 000 (1998 to 2001), $26 700 (2002) and $27 095 (2003).

Prior to 2001, to claim the tax credit for the QST, a taxpayer must not have been dependent on his parents. Since 2001, this requirement has been replaced by an income test that enables taxpayers to more easily determine whether they are entitled this tax credit and makes it accessible to more students.

The tax credit for the QST makes it possible to compensate low - and middle - income earners for the increase in their tax burden arising in particular from the broadening in 1991 and 1992 of the consumption tax base. This tax credit is intended to alleviate the consumption tax burden that these taxpayers bear and thus ensure the progressive nature of the tax system.

- **Tax reduction in respect of individuals (1994 to 1997)**

A tax reduction is granted to individuals whose tax payable is less than $10 000. This reduction is equal to 2% of the amount by which $10 000 exceeds tax payable net of non-refundable tax credits.

This tax reduction was designed to make the tax system more progressive by allowing a reduction in the tax paid by low - and middle - income earners. It was eliminated in 1998 following the reform of the personal tax system.

1.5 Tax measures with specific objectives

– Agriculture and fisheries

- **Cash accounting method (1972)**

Taxpayers engaged in farming or fishing may elect to include their income when it is received instead of when it is earned and to deduct their expenses when they pay the corresponding amounts instead of when their consideration is used in conjunction with the enterprise. This procedure makes it possible to defer the inclusion in income and immediately deduct prepaid expenses. In the reference fiscal framework, income is taxable when earned and expenses are deductible for the period to which they pertain.

This measure is intended to simplify the tax returns of individuals engaged in agriculture and fishing and to increase their cash on hand.

- **Flexibility in accounting for inventory (1972)**

Farmers using the cash accounting method may diverge from it with respect to their inventories. They may add to their income a discretionary amount not exceeding the fair market value of their crop inventories at the end of the year, which may be deducted from their income the following year.

In the case of farmers whose inventories decrease from year to year, this measure is intended to allow them to avoid creating losses, which, were they carried over, would fall under the 10-year carry-over deadline and could be lost. Such tax treatment also offers the possibility of spreading a farmer’s taxable income over time, bearing in mind the considerable price fluctuations for certain farm products.

- **Deferral of capital gains**

  - **Deferral of capital gains on farm assets passed on to children (1972)**

Assets sold or given to children, grandchildren or great-grandchildren usually give rise to taxable capital gains insofar as their fair market value exceeds the adjusted cost base. However, under certain circumstances, capital gains on the transfer of farm assets between generations are only subject to tax when the assets are transferred to a person who does not belong to the immediate family.

A farm asset can be a share of the capital stock of a family farm corporation, an interest in a family farm partnership, or land or a depreciable asset used to operate an unincorporated farm or a farm that is not operated as a partnership.

This measure is intended to foster the transmission of farm assets between the members of the same family.

  - **Deferral attributable to the 10-year reserve for capital gains on the sale to children of farm assets (1981)**

When the proceeds from the sale of farm assets to a taxpayer's descendant are not to be fully received in the year of the sale, the taxation of a portion of the gain may be deferred until the year in which the proceeds of the sale are to be received.

However, a minimum of 10% of the gain must be included in income each year, which creates a reserve period of not more than 10 years.

Income from all other assets, except the shares of a corporation operating a small enterprise that enjoy the same privilege as farm assets, must be included within a maximum of five years at the rate of 20% a year.

This measure is intended to foster the transmission of this type of assets between generations through the gradual taxation of the capital gain, which may be spread over 10 years.

Furthermore, since 1997, the maximum amount of the reserve that may be requested as a deduction in the calculation of a taxpayer's capital gain may not exceed the amount granted as a deduction in this respect at the federal level. The latter measure is intended to prevent provincial tax avoidance.

- **Exemption from paying quarterly instalments (1972)**

Individuals operating a farming or fishing enterprise are required to pay ⅔ of the estimated tax payable at the end of the year and the remainder by April 30 of the following year, at the latest, contrary to other individuals earning business income, who must pay quarterly instalments.

- **Lifetime $500 000 capital gains exemption on farm assets (1986)**

A lifetime $500 000 capital gains exemption is allowed with respect to gains derived from the disposal of farm assets. Only gains that exceed the net cumulative losses on investments sustained after 1987 entitle the taxpayer to the exemption.[2]

Given the rate of inclusion in income of 50% for capital gains realized after October 17, 2000, the resulting exemption on taxable capital gains may total $250 000. The inclusion rate was 75% for capital gains realized before February 28, 2000 and 66 ⅔ % for capital gains realized after February 27, 2000 but before October 18, 2000.

This measure is intended to encourage:

– risk-taking and investment in farming enterprises and create a favourable climate to enable such enterprises to obtain capital;

– the emergence of new enterprises and help small enterprises expand, while recognizing the special position of farmers.

- **Lifetime $500 000 capital gains exemption on fishing assets (2002)**

Since December 19, 2002, a lifetime $500 000 capital gains exemption is allowed with respect to gains derived from the disposal of eligible fishing assets. Only gains that exceed the net cumulative losses on investments sustained after 1987 entitle the taxpayer to the exemption.[3]

Given the rate of inclusion in income of 50% for capital gains, the resulting exemption on taxable capital gains may total $250 000.

This measure is intended to encourage a new generation to enter the fisheries sector, while specifically recognizing the special situation of fishers.

- **Deduction of contributions to a FISA (2001)**

The Farm Income Stabilization Account (FISA) is a program under which an agricultural enterprise and the Québec and federal governments pay amounts in equal proportions into a fund for the enterprise. The income stabilization mechanism provided under FISA allows farmers to stabilize their income by making voluntary contributions to the fund in years when their income is high, and by making withdrawals from the fund, under certain conditions, in years when their income declines.

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2 The $500 000 an individual may claim is divided between the former exemption of $100 000, the exemption relating to eligible farm property, the exemption relating to shares of a small business and the exemption relating to eligible fishing assets, as the case may be.

3 *Ibid*.

Since November 1, 2001, contributions to a FISA made by an entity that carries on an agricultural enterprise are deductible in calculating the income derived from the operation of this enterprise by such entity.

Consequently, the amounts withdrawn from a FISA by such an entity are added to the income derived from the operation of the agricultural enterprise by such entity.

Essentially, this tax treatment is designed to encourage saving so that entities that carry on an agricultural enterprise can manage fluctuations in their farm income depending on their needs.

– **Culture**

- **Dues and donations to arts associations (1987)**

Artists who pay dues to recognized arts associations representing them may receive a non-refundable tax credit that is established by applying to the amount of such dues, a rate of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

Gifts made to recognized arts organizations are included to determine the total amount of donations giving rise to the tax credit for donations. For years prior to 2000, the tax credit for donations was equal to 20% (1997) and 23% (1998 and 1999) of the amount of eligible donations made during the year or in one of the five previous years, provided the amount of such donations was not included for a prior year. Since 2000, the tax credit for donations is calculated according to two rates. These rates are, for the first $2 000 included in the calculation of the tax credit, to 22% (2000), 20.75% (2001) and 20% (starting in 2002), and, for the excess, to 25% (2000), 24.5% (2001) and 24% (starting in 2002).

However, gifts made to an arts organization are subject to the rule designed to limit, to a certain level of the donor’s income, the total amount of donations, other than donations of cultural property, donations of property with undeniable ecological value and gifts to the Crown prior to April 1, 1998, that may be included in the calculation of the tax credit for donations.

For 1997, this limit was set at 20% of the donor’s income for the year, unless he died in 1998, in which case the limit was set at 100% of his income. For any year following 1997, the limit is equal to 75% of the donor’s income, unless he dies in the year or the year after, in which case the limit is set at 100% of the donor’s income. The 75% limit may also be raised to 100% of the donor’s income when the object of the donation is linked to the donee’s mission.

The measure regarding dues to recognized arts associations is intended to allow artists to deduct the dues paid to associations that seek to promote the professional interests of their members, e.g. unions.

The measure regarding donations made to recognized arts organizations is designed to facilitate the funding of Québec arts organizations that are unable to obtain registered charity status.

- **Deduction for musicians and artists (1988)**

A musician who is employed may deduct the amounts he spends to maintain, rent or insure a musical instrument and depreciation in respect of the instrument.

Furthermore, the ministère du Revenu du Québec has adopted an administrative policy concerning performing and recording artists and film actors under which such artists are, under certain conditions, deemed to be self-employed, so that they may deduct the expenses they incur in order to earn income from artistic sources.

These measures are intended to take into account the specific situation of artists.

- **Deduction for an artist regarding copyright royalties (1995)**

An artist who is a member in good standing of a recognized artists' association may take advantage of a deduction that exempts from tax a portion of his income derived from royalties in respect of which he is the first copyright holder.

For 1997 to 2000, however, this deduction could not exceed $15 000 of such income and was reducible at the rate of 1.5 times all royalty income in excess of $20 000. Accordingly, an artist who received income from the distribution of works he created could claim such deduction if the total of such income did not exceed $30 000.

Since 2001, the $15 000 maximum amount of such income is reduced by 0.5 times royalty income in excess of $30 000. Accordingly, an artist may claim this deduction if his income from the distribution of works he created is less than $60 000.

This deduction is intended to promote the creation of original works and the emergence of new talent.

- **Deduction for foreign producers (2001)**

Non-residents of Canada who work as producer for a film production recognized by the Société de développement des entreprises culturelles (SODEC), can claim a deduction in calculating their taxable income, with the result that payments they receive for such services are non-taxable in their hands.

This deduction is designed to keep Québec competitive regarding foreign film productions and provide more inducement for such productions to come to Québec.

- **Non-taxation of gains tied to donations and other dispositions of cultural property (1977 and 1992, respectively)**

A taxpayer who disposes, in favour of certain museums, of a work of art recognized by the Canadian Cultural Property Export Review Board as being of national interest or by the Commission des biens culturels du Québec may take advantage of a tax exemption on the taxable capital gain that should normally result from this transaction. The same is true of the disposal of certain cultural property in favour of a recognized archive centre or a museum accredited by the ministère de la Culture et des Communications.

In addition, the taxable capital gain that may result from the donation, after July 11, 2002, of the bare property of certain cultural property is also tax-exempt, provided the donation is made to a recognized donee, such as a Québec museum, and satisfies a series of conditions ranging from the length of the usufruct or right of usage burdening the donated object to its custody and insurance.

This tax exemption is intended to encourage the donation of art works to museums and donations of heritage property.

- **Depreciation of works of art by a Canadian artist (1981)**

A taxpayer who operates a business or receives property income and who acquires a work of art by a Canadian artist in order to display it at his place of business may amortize each year on a residual basis 20% of the cost of acquisition of the work of art.

This measure is intended to support the production of works of art by Canadian artists.

– **Employment**

- **Non-taxation of strike benefits (1972)**

Strike benefits paid by a union to its members are not taxable.

In a judgment handed down in 1990, the Supreme Court of Canada confirmed the non-taxable nature of strike benefits, even if the funds used to pay such compensation are collected through union dues that are subject to tax relief.

Although strike benefits are not taxable, they were, for 1997, taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for the QST, the tax credit for child care expenses, and the real estate tax refund.

- **Non-taxation of certain non-monetary benefits relating to an employment (1972)**

The fringe benefits offered by employers to their employees are not usually taxable when it is difficult for administrative reasons to ascertain their value or when it is reasonable to consider that they benefit employers more than employees. For example, the discount granted on the purchase of goods, subsidized recreational facilities offered to all employees and the uniforms and clothing intended to protect them, are not taxed.

- **Non-taxation of certain amounts paid to a member of a board of directors or a member of certain committees (2000)**

An individual who holds an office in a body that is a corporation, an association or an organization is not required to include, in calculating his income, the amount he receives from that body in the form of an allowance for travelling expenses or a reimbursement of such expenses to enable him to attend the meetings of the board or committee on which he sits, to the extent that the amount does not exceed an reasonable amount. In order to benefit from this special tax treatment, the place where the meeting is held must be at least 80 kilometres from the individual's place of residence and be consistent with the territorial scope of the non-profit organization's activities, or be within the local municipal territory or the metropolitan region where the head office or main place of business of the non-profit organization is located.

The primary objective of this measure is to facilitate recruitment of persons to hold office with provincial not-for-profit organizations.

- **Non-taxation of certain allowances paid to volunteer firefighters (1972 to 1997)**

For 1997, an individual could deduct, in the calculation of his income from all volunteer firefighter jobs, a single amount equal to the lesser of $600 or all his income for the year from each such job.

To take advantage of this deduction, an individual could not perform a firefighter's duties for over 200 hours during the year and could not receive more than $3 000 in remuneration for the performance of such duties.

This measure, which was replaced in 1998 by the measure described below, was intended to compensate the individual, who could not deduct the expenses incurred in performing his duties, for example, travel expenses.

- **Non-taxation of certain allowances paid to certain emergency services volunteers (1998)**

In 1998, an individual who worked for a public administration as an ambulance technician, a volunteer firefighter or an emergency volunteer worker could deduct in the calculation of his income the remuneration received for such work, up to a maximum of $1 000. If the individual was so employed by more than one employer, he was entitled to a maximum deduction of $1 000 in respect of the remuneration paid by each employer.

Since 1999, this maximum deduction of $1 000 has been replaced by the non-inclusion in the calculation of employment income of the equivalent amount of remuneration.

The purpose of this measure is to assist rural and small communities, which are often unable to afford full-time emergency teams and must depend on volunteer services. It also allows for the fact that volunteers cannot deduct the expenses they incur in performing their duties, for example, travel expenses.

- **Salary deferral under an employee benefits plan (1980)**

An employer may contribute, for the benefit of his employees, to an employee benefits plan when, generally speaking, this arrangement is not designed primarily to defer the tax on the income otherwise payable to the employees. In such a case, the employees are not obliged to add to their income either the contributions thus paid to the plan or the investment income that the contributions generate, as long as they do not receive benefits from the plan.

However, the employer may not deduct the contributions that he has paid into this type of plan before they are actually paid to the employees in the form of benefits.

In the meantime, the tax on the investment income accumulated in the plan must be paid by the plan each year or, if the income is distributed, by the employer or the employee, as the case may be.

The government’s tax base is maintained by making the point at which the benefits from an employee benefits plan are taxed coincide with the point at which the deduction is granted to the employer in respect of the contributions made to such a plan.

Since 1986, employee benefits plans may generally only be established to allow an employee to receive a portion of his salary in a year subsequent to the one in which he benefits from sabbatical leave. This type of plan may also be established in order to spread out the salary of a professional athlete.

- **Salary deferral because of leave (1986)**

Employees, usually those in the public sector, may defer the payment of their salary with a view to taking leave lasting not more than six months (three months in the case of study leave). The amounts thus deferred are only taxable when the employees receive them, possibly at a lower tax rate. The payer may only deduct these amounts in the year in which they are paid to the employees.

- **Deduction for a home relocation loan (1985)**

An employee who obtains a taxable benefit because of an interest-free loan or a loan at a reduced interest rate granted by his employer may take advantage of a deduction in the calculation of his taxable income if the loan qualifies as a home relocation loan.

Briefly, a home relocation loan is a loan used to acquire a home and received by an individual or his spouse when the individual takes up employment in a new place in Canada, which obliges him to move from one home to another, both of them located in Canada, to settle within at least 40 km of the new place of work.

This deduction, granted for a maximum of five years, is equivalent to the lesser of the value of the benefit included in the calculation of the employee’s income with respect to the home relocation loan and the value of the benefit that would thus be included were the value calculated on a $25 000 interest-free loan.

This measure is intended to facilitate manpower mobility and avoid imposing an additional tax burden on an employee who is moving in order to be close to his new place of work, bearing in mind that he may have to acquire a more expensive home.

- **Deduction for workers employed abroad (1983)**

An individual residing in Québec and who performs almost all of the duties pertaining to his employment outside Canada for a period of at least 30 consecutive days may take advantage of a deduction, in calculating his taxable income, of up to 100% of his basic salary and allowances that do not exceed 50% of this basic salary. To take advantage of this deduction, the individual must perform his duties on behalf of a designated employer and be covered by a contract under which this employer operates abroad an enterprise related, in particular, to farming, construction, engineering or scientific or technical services.

This measure is intended to promote the hiring of Quebecers to perform work abroad and bolster the competitiveness of Québec firms operating abroad.

- **Deductions for stock options granted to employees (1985)**

An employee who takes advantage of a share purchase option granted by his employer must include in the calculation of his income, as a benefit, an amount equivalent to the difference between the value of the shares at the time of their acquisition and the amount paid or payable to acquire the shares and the attendant options.

When a Canadian-controlled private corporation (CCPC) grants the stock option to an employee, the value of this benefit must be included in the calculation of the employee's income for the year during which the stock is disposed of. In other instances, the value of the benefit must be included in the calculation of the employee's income for the year during which the stock was acquired. However, under certain conditions, the employees of listed corporations may defer taxation of the value of the benefit resulting from the exercise, after February 27, 2000, of the stock option to the year during which the stock is disposed of or exchanged, up to a single annual limit of $100 000 based on the fair market value of the securities, other than shares of a CCPC, at the time the options are granted.

In addition, subject to compliance with certain conditions, in particular those pertaining to the share, an employee could deduct, in calculating his taxable income for 1997 to 1999, an amount equal to one quarter of the value of the benefit included in the calculation of his income for the year. For 2000, such deduction was equal to one quarter of the value of the taxable benefit if the option was exercised before February 28, 2000, one third of such value if the option was exercised after February 27, 2000 and before October 18, 2000, and half such value if the option was exercised after October 17, 2000. Since 2001, the deduction has been equal to half the value of the taxable benefit included for the year.

An employee of a CCPC who disposes of or exchanges stock more than two years after acquiring it may deduct, in calculating his taxable income, a portion of the value of the taxable benefit included in the calculation of his income, if he does not claim, regarding such stock, the deduction described in the preceding paragraph. Regarding dispositions or exchanges occurring before February 28, 2000, an amount equal to one quarter of the value of the taxable benefit was allowed as a deduction. The amount of such deduction was raised to one third of the value of the benefit for dispositions and exchanges occurring after February 27, 2000 and before October 18, 2000, and to half the value of the benefit for dispositions and exchanges occurring after October 17, 2000.

This measure is intended to encourage employees to enhance the performance and profitability of their employer's business and help corporations to attract and retain highly skilled personnel.

- **Deduction for options to purchase units of a mutual trust fund (1998)**

An employee who takes advantage of an option to purchase units of a mutual trust fund granted by his employer must include in the calculation of his income, as a benefit, an amount equivalent to the difference between the value of the units at the time of their acquisition and the amount paid or payable to acquire these units and the attendant options. The value of this benefit must be included in the calculation of the employee’s income for the year during which the units were acquired.

However, under certain conditions, an employee can defer taxation of the value of the benefit resulting from the exercise, after February 27, 2000, of the option to the year during which the units are disposed or exchanged, up to a single annual limit of $100 000 based on the fair market value of the securities, other than the securities of a CCPC, at the time the options are granted.

In addition, subject to compliance with certain conditions, an employee could deduct, in calculating his taxable income for 1998 and 1999, an amount equal to one quarter of the value of the benefit included in the calculation of his income for the year. For 2000, such deduction was equal to one quarter of the value of the taxable benefit if the option was exercised before February 28, 2000, one third of such value if the option was exercised after February 27, 2000 and before October 18, 2000, and half such value if the option was exercised after October 17, 2000. Since 2001, the deduction has been equal to half the value of the taxable benefit included for the year.

This measure is intended to encourage employees to enhance the performance and profitability of their employer’s business and help mutual trust funds to attract and retain highly skilled personnel.

- **Deduction respecting the donation of securities acquired under a stock option (2000)**

Employees who, after March 14, 2000, donate certain securities acquired under a stock option plan to a registered charitable organization (other than a private foundation) may, under certain conditions, claim an additional deduction in calculating their taxable income. Regarding donations made before October 18, 2000, the amount of the additional deduction is equal to one third of the value of the taxable benefit resulting from the exercise of the option. The amount of such additional deduction was changed to one quarter of the value of the taxable benefit for donations made after October 17, 2000.

To give rise to such special tax treatment, the object of the donation must be a share, a debt obligation or a right listed on a recognized Canadian or foreign stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a related segregated fund trust or certain debt obligations.

This measure was introduced to facilitate the transfer of certain listed securities to charitable organizations to help them respond to public needs.

– **Business and investment**

- **Non-taxation of income from War Savings Certificates (1972)**

The amounts received in respect of the War Savings Certificates issued by His Majesty in right of Canada or similar certificates issued by His Majesty in right of Newfoundland prior to April 1, 1949 are not taxable.

These certificates are redeemable at a price higher than their issue price. This tax exemption ensures that the difference between the redemption price and the issue price is not deemed to be taxable interest.

For 1997, the amounts received in respect of these certificates were taken into account to determine the amount of assistance granted with regard to the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

This non-taxation was originally intended to encourage taxpayers to participate in financing World War II. It is now maintained to grant the same privilege to taxpayers who have not yet redeemed these certificates.

- **Partial inclusion of capital gains (1972)**

Before February 28, 2000, the proportion of net capital gains included in the calculation of income of individuals and corporations was 75%. Following changes introduced during 2000, this proportion was reduced to 66 ⅔ % regarding capital gains realized between February 27, 2000 and October 18, 2000, and reduced again to 50% regarding capital gains realized after October 17, 2000.

The partial inclusion of capital gains is intended to recognize that the appreciation in the value of an asset does not necessarily reflect the taxpayer’s enrichment, bearing in mind inflation. It also results in the virtually equivalent treatment of dividend income and capital gains on shares.

- **Reduction of the inclusion rate for capital gains resulting from the donation of certain securities (2000)**

The inclusion rate of capital gains resulting from the donation of certain securities to registered charitable organizations (other than a private foundation), provided the donations are made after March 14, 2000, is reduced by half.

To give rise to this preferential tax treatment, the object of the gift must be a share, a debt obligation or a right listed on a recognized Canadian or foreign stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a related segregated fund trust or certain debt obligations.

This measure was introduced to facilitate the transfer of certain listed securities to charitable organizations to help them to respond to public needs.

- **Reduction of the inclusion rate of capital gains arising from donations of property with undeniable ecological value (2000)**

The inclusion rate of capital gains resulting from the donation, after February 27, 2000, of certain property with undeniable ecological value is reduced by half.

To give rise to this preferential tax treatment, the object of the gift must be land located in Québec that, in the view of the Minister of the Environment of Québec, has undeniable ecological value, or a real servitude encumbering such land. The land may also be located outside Québec in a border region, if the donation is made after July 5, 2001.

This measure is designed to encourage taxpayers to make donations that contribute to the protection and the development of Québec's ecological heritage.

- **Exemption of $1 000 in capital gains realized on the sale of personal property (1972)**

Personal property is essentially owned for the use and pleasure of the owner instead of constituting an investment, e.g. an automobile.

In the case of such property, rules attributing a minimum value of $1 000 to their cost and to their selling price apply. Because of these rules, the capital gain is reduced or zero when the real cost is lower than $1 000 and it is zero when the real selling price is lower than $1 000 (the capital loss is always zero).

This measure is intended to simplify the administration of the tax system concerning the disposal of personal property of limited value.

However, in the case of personal property acquired after February 27, 2000 as part of an arrangement stipulating that the property will be donated, rules attributing a minimum value of $1 000 to its cost and selling price do not apply.

- **Exemption of $200 in capital gains realized on currency exchange transactions (1972)**

The first $200 in net capital gains realized annually on currency exchange operations (variation in a foreign currency in relation to Canadian currency) is tax exempt. However, any net capital loss sustained on currency exchange operations and which is less than $200 is deemed to be null.

This measure is intended to simplify the administration of the tax system by avoiding accounting for small gains and losses on currency exchange operations.

- **Non-taxation of capital gains on principal residence (1972)**

The capital gain realized at the time of the disposal of a principal residence is tax exempt.

This measure is intended to enable Quebecers to become homeowners and to accumulate wealth. In addition, it makes it possible to exempt from tax a significant portion of the return on household savings.

However, the granting of this exemption justifies the refusal to allow as deductions from income improvement expenses, mortgage interest, property taxes and other expenses incurred in respect of a principal residence. Moreover, the capital losses resulting from the disposal of such property do not give rise to tax relief.

- **Deferral of capital gains**

    - **Taxation of capital gains when realized (1972)**

The capital gain realized by a taxpayer is only taxed when he disposes of assets whose value has increased since they were acquired.

This measure is intended to only subject to tax the gain effectively realized by a taxpayer, as opposed to imputed accumulated gain, thus avoiding having taxpayers pay tax when they have not received any money corresponding to the imputed accumulated gain.

Such a measure simplifies the tax system by avoiding having taxpayers calculate each year a gain or loss in relation to the value of their assets each year, which may fluctuate considerably from one year to the next.

However, since 1994, financial institutions must declare the gains and losses on certain securities, called "assets assessed at market value", in light of the value of such assets at the end of each year.

Deferral by means of capital gains rollover provisions

In some instances, taxpayers may defer the realization of capital gains for the purpose of calculating tax. The general rollover provisions applicable to taxpayers may be divided into two categories.

- **Rollover because of the acquisition of replacement property (1972)**

  - **Involuntary disposition**

The capital gain arising from the involuntary disposal of property, e.g. the proceeds from insurance received after the destruction by fire of an asset, may be deferred if the funds received are used to replace the asset within a prescribed time. The capital gain then becomes taxable at the time of the disposal of the replacement asset.

This measure is intended to avoid having a taxpayer, whether or not he operates a business, bear a tax burden immediately because of the involuntary disposal of an asset when he would only have disposed of the asset later were it not for circumstances beyond his control.

  - **Voluntary disposition**

Generally speaking, the capital gain arising from the voluntary disposal of certain property such as a lot or a building by individuals operating a business may be deferred if the replacement property is purchased prior to the end of the first taxation year following the year in which the disposal took place, e.g. this is the case when a business moves. However, it is not generally possible to take advantage of the rollover in respect of replacement property used to produce rental income.

This measure is intended to grant some flexibility to taxpayers who operate a business in the management of their property.

- **Transfer to a corporation in exchange for shares or to a partnership in exchange for an interest therein (1972)**

Individuals may transfer property to a corporation or to a partnership and elect to defer the capital gain or the recovery of depreciation resulting from such transfer instead of paying the tax payable the year of the sale (rollover).

This measure is intended to avoid making a taxpayer immediately bear a tax burden solely because he decides to use property in the course of carrying on a business through a corporation or a partnership rather than directly.

Since 1997, apart for certain exceptions, when the parties have effected a rollover for the transfer of property for the application of federal tax, a rollover is deemed to have taken place in respect of the transfer of this property for the application of Québec tax. Moreover, the amount that must be considered as the proceeds from the disposal for the transferor and the cost of the property for the beneficiary of the transfer, for the application of Québec tax, is deemed to be the amount considered in this respect from the standpoint of the choice of rollover exercised for the application of federal tax. Similarly, if no turnover took place in respect of the transfer of property for the application of federal tax, no rollover is possible as regards the transfer of this property for the application of Québec tax.

The latter provisions are intended to halt provincial tax avoidance transactions based on the existence of distinct rollover choices in Québec tax legislation.

- **Deferral of capital gains through transfers between spouses (1972)**

Individuals may transfer capital property to their spouses or to a trust on behalf of their spouses at the property’s adjusted cost base instead of its fair market value (rollover). In this way, it is possible to defer the capital gain until the property is once again disposed of or until the death of the spouse who took advantage of the transfer.

Property transferred to other members of the family or to third parties (or to trusts of which they are the beneficiaries) is not subject to the same system. The assignor is usually deemed to have disposed of the property at the time of transfer and must include the resulting capital gain in the calculation of his income at that time.

This exceptional provision is intended to recognize a taxpayer and his spouse as a single taxation entity, thus avoiding taxing the transfer of property within the same household. It should be noted that such a deferral of tax is not allowed for a lengthy period, since it is only permitted in respect of a transfer between two individuals of the same generation. Furthermore, when the transfer occurs inter vivos, special rules apply so that the income generated by the property transferred, with the occasional exception, is taxed in the hands of the transferor.

Since 1997, the rollover between spouses has not been possible when, for federal tax purposes, the transferor elects not to apply the rollover rules.

- **Deferral by means of the five-year reserve (1972)**

When the proceeds from the sale of an asset that is capital property are not to be received fully in the year of the sale, a portion of the capital gain realized may be deferred to the years in which the balance of the proceeds of the sale is received. However, each year, at least 20% of the gain must be included in income, which creates a reserve period of not more than five years.

This measure is intended to avoid having a taxpayer face cash problems in relation to the tax payable on the portion of the capital gain realized at the time of disposal of an asset in respect of which he did not receive any corresponding amount of money.

Furthermore, since 1997, the maximum amount of the reserve that may be requested as a deduction in the calculation of a taxpayer's capital gain may not exceed the amount granted as a deduction in this respect at the federal level. The latter measure is intended to prevent provincial tax avoidance.

- **Deferral attributable to the 10-year reserve for capital gains on the sale to children of shares of a corporation that carries on a small business (1972)**

When the proceeds from the sale of the shares of a corporation that carries on a small business to a taxpayer's descendant are not to be fully received in the year of the sale, the taxation of a portion of the capital gain realized at the time of such a sale may be deferred until the year during which the proceeds of the sale are to be received.

However, a minimum of 10% of the gain must be included in income each year, which creates a reserve period of not more than 10 years.

For all other assets, except farm property that enjoys the same privilege as the shares of a corporation that carries on a small business, the inclusion in income must be carried out over a maximum period of five years, at the rate of 20% a year.

This measure is intended to promote the transmission of small businesses between generations.

Furthermore, since 1997, the maximum amount of the reserve that may be requested as a deduction in the calculation of a taxpayer's capital gain may not exceed the amount granted as a deduction in this respect at the federal level. The latter measure is intended to prevent provincial tax avoidance.

- **Income averaging for owners of private woodlots damaged by the ice storm (1999)**

The owners of private woodlots damaged by the January 1998 ice storm may take advantage of the deferral of tax for a period not exceeding four years in respect of a portion of the income derived from the sale of timber harvested in their woodlots. The amount carried over may not exceed 40% of such income otherwise determined.

Taxation years 1999, 2000, 2001 and 2002 are covered by this measure. In respect of these taxation years, the tax relating to the amount that does not exceed 40% of the income derived from the sale by an eligible woodlot owner of wood may be carried over, at the latest, to the 2003, 2004, 2005 and 2006 taxation years, respectively.

- **Deferral using the billing-based accounting method for professionals (1983)**

For the purpose of calculating their income, certain professionals such as accountants, dentists, lawyers, physicians, veterinarians and chiropractors may elect to use the accrual basis of accounting or the billing-based accounting method.

The latter method consists in deducting the cost of work under way even if the corresponding receipts are only incorporated into income when the invoice is paid or when the amount is due. This is essentially true of goods or services that are being completed and that have not reached the stage at which the taxpayer is obliged to include an amount receivable.

This method gives rise to a tax deferral.

After 1972, professionals had the possibility of calculating their income using the cash basis of accounting. The 1972 reform introduced an accounting method based on the amounts receivable with the possibility of excluding work in progress, which marked a transition between the two accounting methods. Since 1983, this choice has only been available to certain professionals, e.g. accountants, dentists, lawyers, physicians, veterinarians and chiropractors. Other professionals such as engineers and architects are subject to the general rules governing amounts receivable and inventories.

- **Rollover of investments in small businesses (2000)**

To facilitate access to the capital that small businesses may need, a rollover measure allows individuals who realized, after February 28, 2000, a capital gain on the disposal of an investment in a small business, to defer an amount of capital gain when a corresponding amount is reinvested in another eligible small business.

At first limited to $500 000, the maximum amount of capital gain that can be deferred in this way was raised, in harmonization with the federal legislation, to $2 million on October 18, 2000.

The objective of this measure is to enable better access to capital for small businesses with strong growth potential. For that reason, specified financial institutions, professional corporations, corporations with substantial real-estate funds as well as corporations the value of whose assets exceeds $50 million are not considered eligible small businesses.

- **Family trusts (1972, 1995 and 2000)**

Individuals may transfer capital property to a trust on behalf of their spouses at the property's adjusted cost base instead of its fair market value. In this way, it is possible to defer the capital gain until the property is once again disposed of or until the death of the spouse who took advantage of the transfer.

In harmonization with federal legislation, new types of trusts (mixed trusts and trusts in favour of oneself) can, since January 2000, benefit from a deferment of tax similar to the one benefiting trusts in favour of the spouse.

Property transferred to other members of the family or to a trust of which they are the beneficiaries is not subject to the same system. The assignor is usually deemed to have disposed of the property at its fair market value at the time of the transfer and must include the resulting capital gain in the calculation of his income.

In the case of property transferred to a trust, except a trust in favour of a spouse or oneself, or a mixed trust, the capital gain is usually deemed to have been realized at the time of the transfer and according to the property's fair market value at that time. In addition, such a trust is deemed, in general, to have disposed of capital property other than depreciable property that it holds on the day that falls 21 years after the day on which it was established. Consequently, the accrued capital gain on such property is taxable at that time.

- **Deduction for losses as limited partner (1987)**

The active members of a partnership usually share the partnership's income and losses for tax purposes in proportion to each member's participation in the partnership.

However, tax rules now limit the business losses likely to be transferred to the limited (sleeping) partners of a partnership according to the at-risk amount of the partner's investment in the partnership. The at-risk amount is usually defined as the overall cost of the investment in the partnership plus the latter's undistributed income, less the total amounts due from the limited partner to the partnership and the guarantees or indemnities offered to the limited partner against the loss of his investment.

The general tax treatment of the income or losses of limited partnerships or partnerships (the "rules of conduct") means that a business loss is broken down annually, while a shareholder may not deduct the losses of the partnership in which he is a partner against his personal income. The limited partner, in the case of a limited partnership, may be compared with the shareholder in the case of a partnership. Investments in limited partnerships that were motivated by tax considerations have, however, led to the introduction of rules on the at-risk amount to prevent the tax benefit arising from an investment as a limited partner in a limited partnership exceeding the limited partner's actual investment.

- **Deduction for eligible business investment losses (1978)**

Generally speaking, it is only possible to deduct capital losses arising from the disposal of shares or bonds against capital gains.

However, when such a loss is attributable to the shares or debt instruments of a small corporate business, 50% of such loss (75% for losses suffered before February 28, 2000 and 66 ⅔ % for those suffered after February 27, 2000 but before October 18, 2000) may be deducted against another type of income, such as employment income.

The portion of a loss attributable to the shares or debt instruments of a small corporate business that are not used in the year may be subject to a three-year loss carry-back or a seven-year loss carry-forward. After seven years, the loss becomes a capital loss and may be carried over indefinitely in respect of subsequent years against a capital gain.

This measure is intended to ensure the neutrality of the tax system as regards the business operations of small and medium-size enterprises. When an individual operates a business that is not incorporated and sustains losses leading to the cessation of the operation of the business, he may deduct these losses against his other types of income.

- **Lifetime $500 000 capital gains exemption on shares of small businesses (1985)**

The lifetime $500 000 capital gains exemption applies, in particular, to gains derived from the disposal of the eligible shares of small businesses. The exemption is only possible if the gains exceed cumulative net investment losses sustained after 1987.[4]

Given the rate of inclusion in income of 50% for capital gains realized after October 17, 2000, the resulting exemption on taxable capital gains may total $250 000. The inclusion rate was 75% for capital gains realized before February 28, 2000 and 66 ⅔ % for capital gains realized after February 27, 2000 but before October 18, 2000. This exemption, which leads to a deduction in the calculation of taxable income, is intended to encourage the emergence of new businesses and to channel capital to small businesses.

[4] The $500 000 an individual may claim is divided between the former exemption of $100 000, the exemption relating to eligible farm property, the exemption relating to shares of a small business and the exemption relating to eligible fishing assets, as the case may be.

– Education

• Tax exemptions regarding bursaries and awards

‣ Exemption of the first $500 ($3 000 in 2000) of income from an academic or upgrading bursary or award in recognition of a remarkable work (1972 to 2000)

Prior to 2000, a $500 tax exemption was allowed regarding all of the amounts that a taxpayer receives in a given year in the form of academic or upgrading bursaries or awards in recognition of a remarkable work, other than a fully tax-exempt bursary or award. However, this partial exemption did not apply to educational assistance payments made under a registered education savings plan, to amounts received during the course of a business or amounts received because of or in the course of an office or employment, which have their own set of inclusion rules in the calculation of the recipient's income.

In some cases, this partial exemption could exceed $500 if the expenses the taxpayer incurred to fulfil the conditions for obtaining the bursary or the award exceeded this amount and the bursary or award had to be used to produce a literary, dramatic, musical or artistic work.

For 2000, the minimum exemption of $500 was raised to $3 000.

This measure was designed to encourage taxpayers to pursue their studies, improve their training or develop their skills and was replaced in 2001 with a measure that fully exempts bursaries and awards from tax.

‣ Non-taxation of certain bursaries to students suffering from a major functional impairment (1988)

A person engaged in studies and who suffers from a major functional impairment may receive assistance from the ministère de l'Éducation du Québec that offsets the special needs created by the impairment. The amount of such assistance, paid in the form of an academic bursary, need not be included in calculating the recipient's income.

This exemption seeks to treat fairly individuals suffering from a major functional impairment by exempting from tax the reimbursement of expenses relating to their impairment.

‣ Non-taxation of certain bursaries to students from a northern village (1993)

A student from a northern village who must live away from home because the course of studies he is taking is not offered by the school in his community of origin may take receive assistance from the ministère de l'Éducation du Québec to offset his transportation costs. This assistance, paid in the form of an academic bursary, need not be included in calculating the recipient's income.

This exemption is intended to enable students from northern villages to benefit from the same educational services as those offered to other Quebecers.

- **Non-taxation of scholarships (2000)**

For 2000, a taxpayer was not required to include scholarships, bursaries and awards for a remarkable achievement in the calculation of his income if he was taking an undergraduate degree or courses leading to a master's or a doctoral degree, except in the case of bursaries and awards granted under legislation governing financial assistance to post-secondary students.

This measure, which was designed to increase the financial incentive for the best students to pursue higher education and to prepare a sufficient number of new university researchers, was broadened in 2001 to all bursaries and awards, other than bursaries excluded from the calculation of income.

- **Full tax-exemption of bursaries and awards (2001)**

Since 2001, bursaries, fellowships and awards for remarkable achievements have been exempt from tax by means of a deduction in the calculation of taxable income, except for bursaries paid by the ministère de l'Éducation du Québec to students with a major functional impairment or students from northern villages described above which remain excluded from the calculation of income.

However, this tax exemption does not apply to amounts received as benefits under a registered education savings plan, to amounts received in the course of a business and to amounts received because of an office or employment.

The value of bursaries and awards is considered in determining the various tax credits reduced by income, with the exception of the spousal tax credit for 2001 and 2002.

This measure is designed to increase the financial incentive for students to continue studying and to increase the production of remarkable works. By encouraging students to pursue higher education, this measure also seeks to train young scientists in Quebec.

- **Registered education savings plan (1972)**

An individual may contribute to a registered education savings plan (RESP) on behalf of a designated beneficiary, usually his child. Contributions to the RESP are not deductible in the calculation of the subscriber's income but are usually tax free. Since 1997, the maximum annual contribution that can be made for a beneficiary is $4 000, subject to the condition that the cumulative contributions made for him cannot exceed $42 000.

Prior to 1998, investment income derived from the contributions paid to an RESP could generally only be used to help the designated beneficiary engage in post-secondary education and became taxable income in the beneficiary's hands when withdrawn from the plan. Since 1998, if the designated beneficiary of the RESP is 21 years of age and is not engaged in post-secondary study, the subscriber may withdraw from the plan the funds accumulated there. This investment income must be included in the calculation of the subscriber's income and is subject to an additional 8% tax. However, this additional tax may be reduced or even eliminated provided that a premium eligible for deduction is paid into a registered retirement savings plan of which the subscriber or his spouse is the annuitant.

This measure is intended to encourage saving to finance post-secondary studies and to heighten interest among subscribers in this type of savings vehicle.

- **Deduction of contributions to a teacher exchange fund (1972)**

A teacher may deduct the amount that he pays into a fund that the Canadian Education Association set up for the benefit of Commonwealth teachers living in Canada pursuant to an agreement governing teacher exchanges, up to a maximum of $250 a year.

This measure is intended to facilitate the financing of a teacher exchange fund between Commonwealth countries.

- **Tax credit for tuition or examination fees (1997, existed previously in the form of a deduction)**

Since 1997, a taxpayer may take advantage of a non-refundable tax credit for tuition fees paid to enable him to pursue his studies. Eligible tuition fees are generally those paid to a post-secondary educational institution. In addition, examination fees paid to a recognized professional order can also give rise to the tax credit. However, to give rise to the tax credit, total tuition and examination fees in a given year must exceed $100.

The eligible amount of tuition and examination fees is converted into a tax credit at rates of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002). Any unused portion of this tax credit can be applied against tax payable in a subsequent year.

This measure is intended to recognize that tuition fees paid in order to obtain a diploma or occupational training and examination fees paid to a professional order are expenses incurred with a view to entering the labour market and, consequently, to earning income.

- **Tax credit regarding interest paid on a student loan (1998)**

Since 1998, interest paid on a student loan granted pursuant to the *Act respecting financial assistance for education expenses*, the *Canada Student Loans Act* or the *Canada Student Financial Assistance Act* give rise to a non-refundable tax credit. This interest is converted into a tax credit at rates of 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002). Any unused portion of the tax credit may be applied to reduce the tax payable in a subsequent year.

The purpose of this tax credit to lighten the burden arising from the obligation to pay interest on a student loan.

- **Deduction for tool expenses of apprentice vehicle mechanics (2002)**

Since 2002, a taxpayer who is enrolled as an apprentice in a recognized program leading to certification as a mechanic qualified to repair automobiles, aircraft or any other motor vehicle can claim, under certain conditions, a deduction regarding exceptional expenses he had to incur during a year – or, in the case of his first year of a training period, during the last three months of the preceding year – to acquire new tools that must, as certified by his employer, must be supplied and used in the course of his training period.

The amount of this deduction corresponds to the amount by which the cost of the tools exceeds the greater of $1 000 or 5% of the taxpayer's training period income for the year. However, the maximum amount deductible for a year may not exceed the taxpayer's income for the year from all sources.

The unused portion of this deduction can carried forward and deducted during a subsequent year.

The purpose of this measure is to recognize the exceptional expenses apprentice mechanics must incur to acquire the tools they must have in the course of their training period.

- **Tax holiday for foreign post-doctoral interns (1998)**

A personal income tax exemption is granted to post-doctoral interns on the salary they earn during a maximum of five years of scientific research and experimental development (R&D) activities with an eligible university entity or public research centre, already recognized for the purposes of fiscal measures relating to R&D.

A foreign post-doctoral intern is anyone not residing in Canada immediately prior to hiring and who is recognized as a foreign post-doctoral intern by the ministère de l'Éducation du Québec.

This measure is intended to facilitate the recruiting of foreign post-doctoral interns by enterprises or eligible university entities and research centres wishing to carry out R&D, thereby encouraging the pursuit of these activities in Québec, and technology transfers.

– Developmental measures for the economy

• Worker gain-sharing plan (1993)

Worker gain-sharing plans aimed at distributing among the employees of a company a portion of the profits or an amount established according to another performance indicator may give rise to certain tax benefits, provided that the ministère de l'Industrie, du Commerce, de la Science et de la Technologie (MICST) has attested that the enterprise has adopted a total quality process.

The benefits are indicated below:

- the employee may deduct the amounts he receives under the gain-sharing plan, up to \$3 000 a year (lifetime ceiling of \$6 000). However, no deduction may be claimed after the fifth year following the one in which the first plan in which the employee participated was registered;
- when the employer is a small or medium-size enterprise in the manufacturing sector, the employer benefits from a 15% non-refundable tax credit on the eligible amounts paid to employees no later than the end of the fifth taxation year following the one in which the plan was registered. Any unused portion of this tax credit is carried over for a period of five years.

This measure, which is intended to foster partnerships leading to enhanced productivity and in which the notion of total quality must be implicit, only applies to plans that were registered prior to January 1, 1996 and in respect of which the MICST issued a certificate.

• Market makers (1984)

Briefly, the contributions that a market maker working on the floor of the Montréal Exchange makes to an allowance account for contingent losses are deductible from his income, subject to certain limitations.

However, any amount withdrawn by a market maker from an allowance account for contingent losses must generally be included in his income.

This measure is intended to defer the taxation of a portion of a market maker's gains that are set aside in an allowance account in order to cover contingent losses. The objective of this measure is to increase the capital available to market makers.

- **Deduction for certain flow-through share issue expenses (1991)**

Under the general rules governing flow-through share issue expenses, e.g. brokerage, legal and accounting expenses, such expenses must be deducted in the calculation of the issuing company's income over a period of five years.

However, provided that the company waives the deduction of issue expenses incurred at this time and that the expenses pertain to shares or securities the proceeds from which will be used to cover exploration costs in Québec, an additional deduction is granted to the purchasers of flow-through shares in an amount equivalent to the lesser of the issue expenses actually incurred by the company and 15% of the proceeds of the flow-through share issue.

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, there is a transition period for this replacement. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to help finance natural resource exploration operations in Québec.

- **Deductions relating to strategic investments**

  - **Stock Savings Plan (SSP) (1979)**

Briefly, the SSP has three components:

- An individual may deduct 100% of the cost of acquiring a common share, or 50% of the cost of an eligible convertible security, issued by a listed growth company with assets of less than $350 million in conjunction with a distribution of shares to the public in accordance with the rules governing the SSP.

- An individual who acquires a share issued by a regional venture capital corporation is entitled to a 150% deduction (or 75% of the cost of an eligible convertible security).

- Certain rules entitle an individual to a deduction for the acquisition of securities in an "SSP investment fund", based on the fund's commitment to acquire during the following year the shares of growth companies.

The amount of the deduction may not exceed 10% of the taxpayer's "total income" for the year.

The main objective of the SSP is to ensure better capitalization of small and medium-size Québec enterprises. It was originally intended to reduce the tax burden of high-income earners and to broaden participation by Quebecers in the stock market.

- **Flow-through shares - basic deduction of 100% of Canadian exploration expenses, Canadian development expenses and expenses incurred in respect of Canadian assets pertaining to oil and gas (1987)**

A taxpayer who acquires a flow-through share may, generally speaking, take advantage of a deduction equivalent to 100% of the cost of acquiring the share if the financing thus obtained by the issuing company is used to cover the cost of exploration or development work in respect of a mining resources, oil and gas and if the expenses thus incurred are subject to a waiver on behalf of the shareholder.

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, there is a transition period for this replacement. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to foster the financing of mining, oil and gas exploration in Québec.

- **Flow-through shares - additional deduction of 25% in respect of mining, oil and gas exploration expenses incurred in Québec (1987, amended in 1992 to reduce the 33 ⅓ % rate to 25%)**

An individual who acquires a flow-through share may, in addition to the basic 100% deduction, take advantage of an additional deduction of 25% if the expenses incurred by the issuing company from the proceeds of the flow-through share issue are mining, oil and gas exploration expenses incurred in Québec prior to January 1, 2004, subject to the 12-month period stipulated by tax legislation in respect of the execution of work and which the company has waived.

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, there is a transition period for this replacement. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to foster the financing of mining, oil and gas exploration in Québec.

Flow-through shares - additional deduction of 50% in respect of surface exploration expenses incurred in Québec for mining exploration (1989) and for oil and gas exploration expenses incurred in Québec (1996)

An individual who acquires a flow-through share may, in addition to the 100% basic deduction and the additional deduction of 25%, take advantage of a further deduction of 50%, for a total of 175%, if the expenses incurred by the issuing company from the proceeds of the flow-through share issue are surface mining exploration expenses incurred in Québec prior to January 1, 2004, subject to the 12-month period stipulated by tax legislation in respect of the execution of work and which the company has waived.

If the expenses in question are oil and gas exploration expenses incurred in Québec, an additional deduction of 50% is also allowed, for a total of 75% in additional deductions, in respect of such expenses incurred after May 9, 1996 but prior to January 1, 2004, subject to the 12-month period stipulated by tax legislation.

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, there is a transition period for this replacement. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to recognize the higher risks inherent in surface mining exploration work and in oil and gas exploration.

Québec Business Investment Companies (QBICs) (1986 and 1998)

A QBIC is a company that collects funds from individuals to invest them in small and medium-size enterprises (SMEs) operating in eligible sectors. The investment in the SME (the eligible investment) cannot exceed $10 million and triggers the tax benefit.

The deduction allowed to a QBIC shareholder is equal to 150% (or 100% in the case of an eligible convertible preferred share) of the value of the shareholder’s interest in the eligible investment when the assets of the SME are less than $25 million, and 125% (or 75% in the case of an eligible convertible preferred share) of the value of the shareholder’s interest in the eligible investment when the assets of the SME are between $25 million and $50 million. Convertible preferred shares were introduced as an eligible investment on July 11, 2002.

However, a taxpayer’s deduction in this regard may not exceed 30% of his "total income".

This measure is intended to promote the permanent capitalization of SMEs that have not yet reached a sufficient size to make a public share offering and facilitate the raising of the venture capital needed to ensure their growth.

- **Additional capital gains exemption for certain assets relative to resources (1992)**

The capital gain realized by a taxpayer who disposes of an asset is usually equivalent to the difference between the price obtained when the asset is sold and the price paid when it was acquired.

When the asset is a flow-through share, the price paid to acquire the share is deemed to be null, given that such a share usually gives rise to substantial tax deductions.

Consequently, the full amount received when such a share is sold represents a capital gain, independently of the price actually paid at the time of acquisition.

However, insofar as the owner of the flow-through share obtained the tax deductions because exploration costs were incurred in Québec, the capital gain that would be realized, up to an amount equivalent to the purchase price of the share, may be exempt.

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, there is a transition period for this replacement. Accordingly, the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

This measure is intended to promote the financing, through the acquisition of flow-through shares, of mining, oil and gas exploration conducted in Québec.

- **Cooperative investment plan (1985)**

Generally speaking, the cooperative investment plan (CIP) enables a member or an employee of an eligible cooperative to obtain a deduction in respect of the cost of acquiring a share in the cooperative, at the following rates:

– 150% in the case of the acquisition of a share by an employee of a small or medium-size cooperative in respect of which the ministère des Finances, de l'Économie et de la Recherche issued a certificate;

– 125% in the case of the acquisition cost of a unit acquired from a small or medium-size cooperative, other than under an investment program for workers;

– 125% in the case of a share acquired by an employee of a cooperative not covered in the preceding paragraph;

– 100% in other cases.

The employees of cooperative partnerships or the subsidiaries of cooperatives may also take advantage of this deduction.

The deduction granted in conjunction with the CIP may not exceed, in a given year, 30% (10% prior to 2001) of the individual’s "total income". Essentially, an individual’s total income corresponds to his net income determined without including income replacement indemnities received by virtue of a law, from which must be subtracted the exemption on taxable capital gains.

However, the unused portion of such a deduction may be carried forward for a period of five years, subject to the limit of 30% (10% prior to 2001) of total income. Rules have been adopted to ensure the permanence of the capital accumulated by means of the CIP.

This measure is intended to promote the growth of cooperatives by granting a tax benefit to members and employees who acquire the preferred shares issued by eligible cooperatives, essentially cooperatives other than financial or personal service cooperatives.

- **Tax holiday for foreign researchers (R&D) (1987, 1998 and 1999)**

A personal income tax exemption is granted to specialized foreign researchers on the salary they earn during a maximum period of five years of research activity in a firm conducting scientific research or experimental development (R&D) in Québec.

A specialized foreign researcher is anyone not residing in Canada immediately prior to hiring and who is recognized as a specialized researcher by the ministère des Finances, de l’Économie et de la Recherche.

This measure is intended to facilitate the recruiting of specialized foreign researchers by companies that want to carry out R&D, thus encouraging the pursuit of these activities in Québec, and technology transfers.

- **Tax holiday for foreign experts (1999)**

A personal income tax exemption is granted to foreign experts on the salary they earn during a maximum period of five years, in relation to their activities with firm conducting scientific research or experimental development (R&D) in Québec.

A foreign expert is anyone not residing in Canada immediately prior to hiring and who is recognized by the ministère des Finances, de l’Économie et de la Recherche as an expert in the management or financing of innovation, commercialization abroad or transfer of leading technology.

This measure is intended to facilitate the recruiting of foreign experts by companies that want to carry out R&D, thus encouraging the pursuit of these activities in Québec, and technology transfers.

- **Tax holiday for Québec seamen (1996)**

With respect to the remuneration that he receives after August 31, 1996, a seaman holding an eligibility certificate issued by the ministère des Transports (MTQ) and performing his duties on a ship operated by an eligible shipowner and engaged in the international transportation of goods may deduct in the calculation of his taxable income an amount equivalent to 100% of the remuneration received from this shipowner for the period during which the seaman worked on such a ship. This period must be at least ten consecutive days (30 consecutive days for assignment periods ending before March 14, 2000). The shipowner must be covered by an eligibility certificate issued by the MTQ. In particular, the shipowner must be a person residing in Canada or a company that is a foreign subsidiary of such a person.

This measure is intended to enhance the competitiveness of Québec shipowners and encourage them to employ Québec seamen.

- **Tax exemptions for the employees of an international financial centre (IFC) (1986)**

  - **Partial income tax exemption for the employees of an IFC**

Provided that he fulfils the conditions otherwise applicable, an individual employed by a company or a partnership operating an IFC may take advantage of a partial income tax exemption. This exemption consists of a deduction in the calculation of taxable income.

On March 29, 2001, the percentage of the income of an IFC employee eligible for the partial income tax exemption was raised from 33 ⅓ % to 50%.

This exemption is granted to the employees of a partnership or a limited partnership that operates an IFC in order to enable the partnership or the limited partnership to reduce the cost of IFC-related operations and thus gain a competitive edge for Montréal as a centre suited to the conduct of international transactions.

  - **Total income tax exemption for foreign specialists**

Briefly, an individual who specializes in an eligible field of international transactions and who, immediately prior to the conclusion of his employment contract or his taking up employment with a partnership or a limited partnership operating an IFC, does not reside in Canada may take advantage of a total income tax exemption on his income from all sources. This exemption consists of a deduction in the calculation of taxable income.

The period of exemption applicable to such specialists was extended from two to four years on March 31, 1998 and from four to five years on March 9, 1999.

This measure is intended to encourage foreign specialists to settle permanently in Montréal.

- **Tax holiday for foreign experts employed by a securities exchange or securities clearing corporation (2000)**

Briefly, an individual who, for a taxation year, works exclusively or almost exclusively for a securities exchange or securities clearing corporation business carried on within the territory of the City of Montréal by an eligible corporation and who, immediately prior to the conclusion of his employment contract or the commencement of his employment as an employee of the eligible corporation, was not a resident of Canada, may claim a total income tax exemption on his income from all sources.

The tax holiday for foreign experts applies regarding any individual who commences employment as a foreign expert with an eligible corporation after April 26, 2000 and before January 1, 2011, and is intended to encourage foreign specialists to settle permanently in Montréal.

- **Deduction for a member of a partnership that operates an international financial centre (1998 and 2000)**

Originally, an IFC had to be operated by a corporation. However, to further stimulate the establishment of IFCs in Montréal, it was announced on June 23, 1998, that partnerships would be authorized to operate an IFC for fiscal years of partnerships ending after June 23, 1998.

However, regarding income tax, the benefit granted to a member of a partnership operating an IFC depends on whether the member is an individual who resides in Canada or another type of taxpayer. Briefly, the exemption is 100% in the case of a member that is a corporation or a natural person who does not reside in Canada, and 30% in the case of a member who is an individual who resides in Canada.

- **Deduction for independent financial derivatives traders (2001)**

As part of the strategic repositioning of its activities, the Montréal Exchange joined an international alliance of securities exchanges in the fall of 2000. However, one of the requirements of this alliance is that "open-outcry" trading activities in financial derivatives (FD) be transferred to an electronic trading platform. To maintain the vitality of the market and foster the liquidity of FD listed on the Montréal Exchange during the transition period required to implement an electronic trading platform, a fiscal measure was introduced to support independent FD traders for three and a half years.

Briefly, this measure consists of a deduction in the calculation of the taxable income of an individual who, for a taxation year, carries on a business in Québec as an independent FD trader and who holds an eligibility certificate issued by the Minister of Finance, the Economy and Research. The amount of the deduction an independent FD trader may claim is equivalent to the portion of such trader’s income attributable to trading activities carried out through the electronic trading platform of the Montréal Exchange covering FDs listed electronically with the exchange. However, this deduction is limited to an amount of $200 000 per year and a cumulative ceiling of $600 000.

This measure is designed to help independent FD traders to migrate from "open-outcry" trading to the electronic trading platform of the Montréal Exchange.

- **Tax holiday for foreign specialists working for a corporation that carries out an innovative project in certain designated sites (1997)**

The concept of designated sites for carrying out innovative projects was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI). New economy centres (CNE) were created in the March 9, 1999 Budget Speech and the concept was extended to these designated sites.

Briefly, this measure is intended to support companies that promise to undertake, in certain designated sites, innovative projects in specific fields. In the case of corporations that carry out an innovative project in a CDTI or in a CNE, the specific field is information and communications technologies.

The concept of designated sites for carrying out innovative projects was extended to the biotechnology sector. The first biotechnology development centre was designated in Laval. Others were subsequently designated elsewhere in Québec. In the case of biotechnology development centres the target field is biotechnology since these sites are dedicated exclusively to this sector.

A tax holiday is granted to foreign specialists employed by a company operating an enterprise in one of these designated sites. Such a foreign specialist may take advantage, for a period of five years, of a tax exemption on employment income. This exemption consists of a deduction in the calculation of taxable income.

A foreign specialist is deemed to be any person who did not reside in Canada immediately prior to being hired by a corporation carrying out an innovative project in a CDTI or a CNE, whose duties with the corporation consist almost exclusively in providing training, conducting research and development, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, or a combination of the foregoing responsibilities, and who holds an attestation of eligibility. In the case of a foreign specialist employed by a corporation carrying on a business in a biotechnology development centre, his duties with the corporation must consist almost exclusively in providing training, conducting research and development, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, other activities relating to the biotechnology sector, or a combination thereof.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax holiday.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that undertake to carry out innovative projects in specific fields in designated sites.

- **Tax holiday for foreign specialists working in certain designated biotechnology sites (2002)**

A tax holiday is granted to foreign specialists employed by an eligible corporation carrying on a certified business in a designated biotechnology site. Such a foreign specialist may take advantage, for a period of five years, of a tax exemption on employment income.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in a designated biotechnology site.

- **Tax holiday for foreign specialists working in the nutraceutical and functional foods sector (2002)**

A tax holiday similar to the one available to a foreign specialist working in certain biotechnology sites is available to a foreign specialist working for an eligible corporation carrying on a certified business in the Québec City region. Such a foreign specialist may take advantage, for a period of five years, of a tax exemption on employment income.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in the nutraceutical and functional foods sector in the Québec City region.

- **Tax holiday for foreign specialists working in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or a new economy centre (2000)**

Since March 14, 2000, a tax holiday similar to the one available to a foreign specialist working for a corporation that carries out an innovative project in certain designated sites is available for a foreign specialist working for a corporation that carries out specified activities in the Cité du multimédia, the Centre national des nouvelles technologies de Québec or in a new economy centre. Accordingly, such a specialist may benefit, for a period of five years, from an exemption from tax on his income from such employment.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

- **Tax holiday for foreign specialists working in innovation centres (2002)**

A tax holiday is granted to foreign specialists working for an eligible corporation carrying on a certified business in the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec. Such a foreign specialist may benefit, for a period of five years, from an exemption from on the income from such employment.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec.

- **Tax holiday for foreign experts working in E-Commerce Place (2000)**

The concept of E-Commerce Place was introduced on May 11, 2000. Briefly, the fiscal measures associated with this concept are designed to support job creation in field of e-commerce operation and development.

A tax holiday is granted to foreign specialists employed by a company that carries on a business in E-Commerce Place. Such a foreign specialist may take advantage, for a period of five years, of a tax exemption on income from such employment.

A foreign specialist is deemed to be any person who did not reside in Canada immediately prior to being hired by a corporation carrying on a business in E-Commerce Place, whose duties with the corporation consist almost exclusively in providing training, conducting research and development, development and operation of technological systems and infrastructures, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, or a combination of the foregoing responsibilities, and who holds an eligibility certificate issued by the Minister of Finance, the Economy and Research.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that carry on a business in E-Commerce Place.

- **Tax holiday for foreign specialists working in the e-business sector in certain designated sites (2002)**

A tax holiday is granted to foreign specialists employed by an eligible corporation that carries on a certified business in the Montréal E-Commerce Zone or in the Centre national des nouvelles technologies de Québec (CNNTQ. Such a foreign specialist can benefit, for a period of five years, from a tax exemption on the income from such employment.

This fiscal measure is the responsibility of the Bureau du commerce électronique. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in the Montréal E-Commerce Zone or in the CNNTQ.

- **Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel (1999)**

An individual working as a foreign specialist in the Montréal Foreign Trade Zone at Mirabel (Mirabel zone) may take advantage of a five-year total income tax exemption.

In this regard, a foreign specialist designates an individual who is a manager or professional whose level of expertise is widely recognized in his milieu and who is employed in the Mirabel Zone by a corporation operating an eligible business.

- **Tax holiday for foreign professors (2000)**

A personal income tax exemption is granted to foreign professors on the salary they earn during a maximum period of five years, in relation to their activities with a Québec university.

A foreign professor is anyone not residing in Canada immediately prior to hiring and who is recognized by the ministère de l'Éducation du Québec as holding a doctorate in the field of science and engineering, finance, health or new information and communications technologies.

This measure is intended to facilitate the recruiting of foreign professors in these fields by Québec universities.

- **Tax credit for contributions to a labour-sponsored fund (FSTQ 1983 and Fondaction 1995)**

An individual who acquires, as the first purchaser, shares issued by the Fonds de solidarité du Québec (FSTQ) or by the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction) is entitled to a non-refundable tax credit equal to 15% of the cost of acquisition of these shares, up to a total tax credit of $750 per year.

However, for 1997, this tax credit could not exceed $525 per year, unless all the shares were acquired in accordance with an obligation stipulated in a collective agreement concluded no later than May 9, 1996, in which case it could total $750.

This measure is intended to facilitate the financing of the FSTQ and Fondaction in order to promote job creation and greater investment in small and medium-size Québec enterprises.

- **Tax credit for the acquisition of shares of Capital régional et coopératif Desjardins (2001 to 2010)**

An individual who acquires, as the first purchaser, shares issued by Capital régional et coopératif Desjardins is entitled to a non-refundable tax credit equal to 50% of the cost of acquisition of these shares, up to a total tax credit of $1 250 per year.

Capital régional et coopératif Desjardins is a joint stock company with the mission of marshalling venture capital for the resource regions of Québec and cooperatives.

This measure is designed to encourage taxpayers to participate in the economic development of resource regions and the growth of cooperatives in Québec.

– **Recognition of certain special situations**

- **Refundable tax credit for lodging a parent (1992)**

A refundable tax credit of $550 is granted to a taxpayer for each qualified parent whom he lodges in the dwelling he occupies. In order for the taxpayer to be entitled to this tax credit, the parent must be 70 years of age or over, or 60 or over and suffering from a severe and prolonged mental or physical impairment and, generally speaking, have lived with the taxpayer for 12 consecutive months, at least six of them in the year in which the tax credit is claimed.

In applying this tax credit, the expressions "qualified parent" includes the father, the mother, the grandfather and the grandmother of the taxpayer or the taxpayer’s spouse, and, since 2000, includes an uncle, aunt, great-uncle or great-aunt of the taxpayer or the taxpayer’s spouse.

The tax credit for lodging a parent is intended to recognize the social value of the gesture made by adults who lodge their parents at a time when financial constraints are making it increasingly difficult to create new places in reception centres.

- **Refundable tax credit for home maintenance of an older person (2000)**

The tax system grants a taxpayer 70 years of age or over a refundable tax credit equivalent to 23% of the eligible expenses he has incurred to obtain certain home support services (domestic services and direct personal services). However, the amount of expenses eligible for this tax credit is subject to an annual limit of $12 000, enabling the taxpayer to receive a maximum tax credit of $2 760.

To take advantage of this tax credit, the taxpayer must, in particular, cover the expenses incurred to obtain home support services by means of the employment service paycheque, which enables the taxpayer to obtain in advance the payment of the tax credit as he defrays the cost of these expenses.

The tax credit for home maintenance of an older person is designed to provide financial support for older persons who choose to remain in their home as long as possible.

- **Deductions for inhabitants of remote regions (1987)**

Individuals living in remote regions covered by regulation during a set period may take advantage of a deduction in respect of their residence and, if they enjoy because of their employment certain taxable benefits concerning travel, a deduction for travel. The deduction for their residence may reach $15 a day, without exceeding 20% of the taxpayer’s income for the year, while the deduction for travel applies to two vacation trips paid by the employer per year and trips, without restriction, paid by the employer for medical reasons.

These deductions are integral for the inhabitants of regions located farther north (northern zone); the inhabitants of the intermediary zone are entitled to 50% of the eligible amount.

For 1997 and years after 2002, the deductions for inhabitants of remote regions reduced the income used to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for the QST, the tax credit for child care expenses and the real estate tax refund.

These deductions are intended to recognize the specific needs of the inhabitants of certain regions created by the remoteness of the regions and the high cost of living.

- **Refundable tax credit for individuals living in a northern village (1998)**

Since 1998, an individual living in a territory established as a northern village municipality pursuant to the *Act respecting Northern villages and the Kativik Regional Government* may take advantage of a refundable tax credit. The basic amount of this tax credit depends on the number of months during which the individual lives in such a territory and his family situation.

For each month during which the individual inhabits this territory, he is entitled to $35, which is increased to $70 when the individual has a spouse. In addition to the $35 or $70, as the case may be, $15 is added for each child of the individual regarding whom a tax credit for dependent child is claimed (before 2001, the amount of $15 was granted for each dependent child).

The basic amount determined with respect to the individual is then reduced at the rate of 15% for each dollar of family income, i.e. the individual’s net income and, as the case may be, his eligible spouse’s income, established, for years prior to 2003, according to the rules of the simplified tax system, which exceeds $26 000. The parameters of this tax credit (the amounts of $35 for each member of the couple and of $15 for each dependent child and the $26 000 threshold) are automatically indexed as of 2002.

TABLE 10
PARAMETERS USED TO DETERMINE THE TAX CREDIT FOR RESIDENTS OF A NORTHERN VILLAGE

Taxation year	**1998 to 2001**	**2002**	**2003**
Amount per adult	$35	$36	$37
Amount per dependent child	$15	$15	$15
Reduction threshold	$26 000	$26 700	$27 095

This tax credit is intended to recognize the specific needs of the inhabitants of northern villages created by the remoteness of the villages, climate and the high cost of living.

- **Deduction for lodging of members of a religious order (1972)**

A taxpayer who is a member of the clergy or a religious order or a regular minister of a religious denomination may, subject to certain limits and conditions, deduct his housing expenses. The same is true of the value of the residence or dwelling that he occupies because of his employment, provided that this value is included in the calculation of his income for the year.

The special regime for expenses relating to the lodging of members of a religious order reflects the particular nature of the contributions and the situation of such members.

- **Tax credit for members of a religious order (1988, existed previously as an exemption)**

A member of a religious order who has taken vows of perpetual poverty was entitled to a non-refundable tax credit of $792 (1997), $911 (1998 and 1999), $871 (2000) and $822 (2001). As of 2002, this tax credit becomes is once again $792.

Under the 1972 tax reform, it was decided to subject to taxation the income of the members of a religious order who had taken a vow of perpetual poverty and to grant them an additional exemption, which, at the time, was equivalent to the exemption accorded married persons. This exemption was based on the premise that a taxpayer who is a member of a religious order provides for the needs of the members of his community who do not have income.

- **Refundable tax credit for top-level athletes (2000)**

Athletes recognized by the Secrétariat au loisir et au sport as belonging to the "Excellence", "Élite" or "Relève" performance level may claim a refundable tax credit. The value of this tax credit can reach $4 000 when the athlete belongs to the Excellence or Élite level, and $2 000 at the Relève level.

For each combination of level of performance and type of sport (individual or team), indicated in the attestation issued for the year to an individual, the tax credit granted for that year is equal, in proportion to the number of days, to the amount given in the following table for such combination.

TABLE 11
MAXIMUM AMOUNT OF THE REFUNDABLE TAX CREDIT FOR TOP-LEVEL ATHLETES
(Dollars)

	Excellence	Élite	Relève
Individual sport	4 000	4 000	2 000
Team sport	2 000	2 000	1 000

This measure aims to contribute to the development of sports in Québec and further support top-level athletes in the pursuit of sports excellence.

– Retirement

• Registered retirement savings plan (1972)

There are two types of tax benefits inherent in registered retirement savings plans (RRSPs), i.e. the deductibility of the contributions paid into such plans and the non-taxation of the investment income accumulated therein.

Contributions are limited to 18% of earned income during the preceding taxation year, up to a maximum of $13 500, less a pension adjustment, based on the contributions paid to a registered pension plan and, as the case may be, a deferred profit-sharing plan.

The amounts invested in an RRSP and the investment income generated by the plan are taxable when the funds are withdrawn.

Taxpayers benefit simultaneously from the deferral of tax on investment income and a tax saving insofar as the tax rate on withdrawals is lower than the rate in effect when the deduction was granted in respect of the payment of contributions. They may also take advantage of income splitting if they contribute to a spousal RRSP.

Taxpayers can save money for retirement and thus avoid relying on the government at that time.

• Registered pension plan (1972)

The tax benefits inherent in recognized pension plans, called registered pension plans (RPPs) in the tax legislation, are of two types: the deductibility of contributions paid into such plans and the non-taxation of the investment income accumulated therein.

In the case of defined contribution pension plans, the amount deductible in respect of contributions to the plan for employers and employees may not exceed the ceiling established for the year, i.e. $13 500 for 1997 to 2002 and $14 500 for 2003.

In the case of defined benefit pension plans, the amount an employee may deduct in the calculation of his income in respect of contributions to the plan is not subject to any ceiling. However, employer contributions are limited to the amounts necessary to cover the full funding of the anticipated benefits. The annual benefits of this type of RPP are limited to the lesser of $1 722.22 and 2% of average remuneration per year of pensionable service.

The amounts invested in an RPP and the investment income arising therefrom are taxed when the funds are withdrawn.

Taxpayers benefit simultaneously from the deferral of tax on investment income and, eventually, a tax saving insofar as the tax rate on withdrawals is lower than the rate in effect when the deduction was granted in respect of the payment of contributions.

Taxpayers can save money for retirement and thus avoid relying on the government at that time.

- **Deferred profit-sharing plan (1972)**

An employer may pay, on behalf of his employees, tax deductible contributions to a deferred profit-sharing plan (DPSP). Essentially, this plan consists in an arrangement under which an employer pays part of his company’s annual profits to a trustee, who holds and invests this contribution for the benefit of the employees participating in the plan.

When the employees withdraw the funds accumulated in such a plan, the funds are taxable.

The contribution that an employer pays into a DPSP in respect of an employee may not exceed the lesser of the following amounts: 18% of the employee’s remuneration and $6 750 for the years 1997 to 2002 and $7 250 for 2003. However, this limit can be reduced if the total contributions paid by the employer to an employee retirement pension plan and to a DPSP exceeds $13 500 for the years 1997 to 2002 and $14 500 for 2003.

An employee can thus save for retirement while participating in the company’s growth.

- **Tax credit for retirement income (1975)**

The tax system allows a non-refundable tax credit to individuals receiving certain types of retirement income. This tax credit is calculated on the basis of a maximum of $1 000 received in the form of eligible retirement income.

Retirement income that is eligible for the application of this tax credit includes, in particular, life annuity payments under a pension plan, payments from a registered retirement savings plan, and payments from a registered retirement income fund. However, such income does not include amounts received pursuant to the *Old Age Security Act* and the *Act respecting the Québec Pension Plan*.

Initially, the tax credit for retirement income was implemented in order to protect pension beneficiaries from the high inflation rates in the 1970s. Since 1996, the $1 000 on which the calculation of the tax credit has been based has been gradually reduced according to income.

For 1997, the eligible amount of retirement income was reduced at the rate of 15% for each dollar of the taxpayer's net income in excess of $26 000. The amount so reduced was converted into a tax credit at a rate of 20%.

Since 1998, the $1 000 has been added to the $2 200 granted with respect to age and the amount for a person living along with the corresponding amounts, as the case may be, of which the taxpayer's spouse may take advantage. The combined amount is reduced once. The rate of this reduction is 15% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his eligible spouse, determined for the years prior to 2003, according to the rules governing the simplified tax system, that exceeds $26 000 (1998 to 2001), $26 700 (2002) and $27 095 (2003). The total of these amounts thus reduced is converted into a tax credit at rates of 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

For 1997, the unused portion of the tax credit for retirement income available to a taxpayer was transferable to his spouse. Since 1998, the spouses have been able to share this tax credit.

- **Tax credit with respect to age (1972)**

The tax system allows persons 65 years of age or over a non-refundable tax credit calculated on the basis of an amount of $2 200 that reduces with income.

For 1997, the $2 200 was reduced at the rate of 15% for each dollar of the taxpayer's net income in excess of $26 000. The amount so reduced was converted into a tax credit at a rate of 20%.

Since 1998, the $2 200 has been added to the $1 000 for retirement income and the amount for a person living along with the corresponding amounts, as the case may be, of which the taxpayer's spouse may take advantage. The combined amount is reduced once. The rate of this reduction is 15% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his eligible spouse, determined for the years prior to 2003, according to the rules governing the simplified tax system, that exceeds $26 000 (1998 to 2001), $26 700 (2002) and $27 095 (2003). The total of these amounts thus reduced is converted into a tax credit at rates of 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

For 1997, the unused portion of the tax credit with respect to age available to a taxpayer was transferable to his spouse. Since 1998, the spouses have been able to share this tax credit.

– Health

- **Tax credit for medical expenses (1988, existed previously in the form of a deduction)**

An individual who covered his own eligible medical expenses and those of his spouse and dependants was entitled to a non-refundable tax credit in respect of the portion of his eligible medical expenses that exceed 3% of his family income, i.e. the individual's net income and his eligible spouse's income determined, for the years 1998 to 2002, according to the rules governing the simplified tax system. This portion of eligible medical expenses is converted into a tax credit at rates of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

This tax credit is intended to offset a portion of the medical expenses that a taxpayer bears when such expenses exceed a certain level of income.

- **Refundable tax credit for medical expenses (1997)**

In order to more adequately consider the ability to pay of a low-income earner, the latter is entitled to a refundable tax credit in respect of the portion of his eligible medical expenses that exceed 3% of his family income. This tax credit, which is available to individuals whose earned income is at least $2 500, is equivalent to 25% of such expenses, up to a maximum of $500 that is automatically indexed as of 2002. However, this tax credit is reducible at the rate of 5% for each dollar of family income, i.e. the taxpayer's net income and his eligible spouse's net income determined, for the years 1998 to 2002, according to the rules governing the simplified tax system, that exceeds $17 500 (this amount is automatically indexed as of 2002).

TABLE 12
PARAMETERS USED TO DETERMINE THE REFUNDABLE TAX CREDIT FOR MEDICAL EXPENSES

Taxation year	**1997 to 2001**	**2002**	**2003**
Maximum amount	$500	$515	$525
Reduction threshold	$17 500	$17 970	$18 235

This tax credit is intended, in particular, to offset a portion of the loss of special benefits received by an income security beneficiary who is entering the labour market.

- **Tax credits relating to medical care not provided in the region of residence (1989)**

A taxpayer is entitled to a non-refundable tax credit equivalent to 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002) of travel and lodging expenses or moving expenses he pays for himself or a dependant may obtain in Québec medical care that is not available less than 250 km from his place of residence.

These measures are intended to provide tax relief to taxpayers who must assume certain expenses to obtain specialized medical care that is available only in major urban centres.

- **Tax credit for a person suffering from a severe and prolonged mental or physical impairment (1988, existed previously in the form of a deduction)**

A taxpayer suffering from a severe and prolonged mental or physical impairment that significantly hampers his ability to pursue a normal activity of everyday life is entitled to a non-refundable tax credit. This tax credit corresponds to an amount of $2 200, converted at rates of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002). The unused portion of this tax credit is transferable to the spouse or parents of the person suffering from such an impairment.

This tax credit is intended to acknowledge the reduced capacity of taxpayers suffering from a severe and prolonged mental or physical impairment, their spouses or parents to pay tax because of the additional costs that they, their spouses or parents must assume.

– **Income support**

- **Non-taxation of last-resort assistance benefits (1972 to 1997)**

For 1997, last-resort assistance benefits received by low-income earners were not taxable. However, these benefits were taken into account for the purpose of determining various tax credits that were reducible in light of the taxpayer's income.

Since 1998, a taxpayer is no longer authorized to deduct in the calculation of his taxable income the last-resort assistance benefits he receives pursuant to the *Act respecting income security*, replaced in 1999 by the *Act respecting income support, employment assistance and social solidarity*, or another similar provincial statute. However, given the harmonization of tax thresholds with transfer programs, beneficiaries for whom last-resort assistance is the only source of income during the entire year do not have to pay tax on such benefits.

- **Non-taxation of financial assistance with respect to child care expenses received government employment assistance programs (2000)**

The financial assistance with respect to child care expenses granted a taxpayer under an active employment measure set up by Emploi-Québec or a program set up by the Canada Employment Insurance Commission, is not taken into consideration in determining the taxpayer's income.

This measure is designed to recognize the costs incurred by parents actively seeking employment.

- **Deduction of financial assistance provided for payment of tuition fees relating to basic adult education (1997)**

A taxpayer who received financial assistance for the payment of his tuition fees under certain government employment assistance programs can deduct, in calculating his taxable income, the amount of such assistance provided, in particular, that such amount was included in calculating his income and relates to tuition fees that do not entitle him to the tax credit for tuition fees, such as tuition fees for primary level education or general education at the secondary level.

Essentially, this measure is designed to encourage taxpayers to improve their skills to enable them to more easily enter the labour market.

- **Non-taxation of the guaranteed income supplement and spouse's allowance (1972 and 1975, respectively)**

The guaranteed income supplement (GIS) is paid to retirees with low incomes receiving an old age pension. When the spouse of the beneficiary of the GIS (or a widower or a widow) is between the ages of 60 and 64, he may be entitled to the spouse's allowance. The amounts paid in respect of the GIS and the spouse's allowance are not taxable. However, these amounts are taken into consideration to determine the various tax credits that are reducible in light of a taxpayer's income, except for the spousal tax credit for the years 1998 to 2002.

The amount of the guaranteed income supplement and the spouse's allowance is set bearing in mind that these benefits are not taxable.

- **Non-taxation of worker's compensation indemnities (1972)**

Worker's compensation indemnities are not taxable. However, these indemnities are taken into account to determine the various tax credits that are reducible in light of a taxpayer's income, except for the spousal tax credit for the years 1998 to 2002.

The amount of the indemnities paid pursuant to federal or provincial legislation governing industrial accidents in respect of injuries, disability or death is set bearing in mind that these indemnities are not taxable. For example, the income replacement indemnity is usually equivalent to 90% of net after-tax employment income.

The employer contributions that are used to finance the payment of these indemnities are deductible in the calculation of business income.

- **Non-taxation of indemnities received from the Société de l'assurance automobile du Québec (1978)**

Income replacement indemnities received pursuant to the *Automobile Insurance Act* or similar legislation in another province are not taxable. However, these indemnities are taken into account to determine the various tax credits that are reducible in light of a taxpayer's income, except for the spousal tax credit for the years 1998 to 2002.

The amount of the indemnities is set bearing in mind that these benefits are not taxable. For example, the income replacement indemnities are usually equivalent to 90% of net after-tax income.

- **Non-taxation of certain indemnities received as a victim of a crime (1972)**

Income replacement indemnities received pursuant to the *Crime Victims Compensation Act* or similar legislation in another province are not taxable. However, these indemnities are taken into account to determine the various tax credits that are reducible in light of a taxpayer's income, except for the spousal tax credit for the years 1998 to 2002.

The amount of the indemnities is set bearing in mind that these benefits are not taxable.

- **Non-taxation of certain income from indemnities regarding physical or mental injuries (1972)**

When a person sustains a physical or mental injury and he is indemnified for such injury, the investment income generated by this amount or by replacement property is exempt from tax until the end of the year in which the person reaches the age of 21.

Indemnities awarded in respect of physical or mental injuries are not usually taxable since they do not constitute income but instead, compensation for the loss of human capital. In the absence of an exceptional provision, the revenue generated by such capital would, however, be taxable.

- **Non-taxation of death benefits up to $10 000 (1972)**

Death benefits paid by an employer to a taxpayer following an employee's death in recognition of the services rendered by the employee in the course of his employment are not taxable, up to $10 000.

This measure is designed to relieve the difficulties dependants must face upon the death of individual who supported them.

The amounts paid in death benefits by an employer are deductible in the calculation of his business income.

- **Non-taxation of pensions and indemnities (injury, disability or death) paid to RCMP officers (1972)**

Pensions and various indemnities relating to injury, disability or death paid to RCMP officers are not taxable. However, for 1997, such pensions and indemnities were taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

This measure takes into account the fact that such benefit constitute, to a large extent, a form of indemnity to the national police force of Canada and to their family for a capital loss suffered by members of this force injured while on duty.

- **Non-taxation of allowances of war veterans, war pensions and allowances paid to civilians and other military pensions (including those paid by allied countries) (1972)**

The amounts paid to veterans and the war pensions and allowances paid to other persons pursuant to certain statutes are not taxable. However, for 1997, such pensions and allowances were taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

This measure takes into account the fact that such benefits constitute a basic support for the persons concerned.

- **Non-taxation of disability pensions of war veterans and dependants' support allowances (1972)**

Financial compensation paid to veterans because of a battle injury and those paid to their dependants are not taxable. However, for 1997, such pensions and allowances were taken into consideration to determine the amount of assistance granted in respect of the tax reduction in respect of families, the tax credit for child care expenses, the tax credit for the QST, and the real estate tax refund.

This measure takes into account the fact that such benefits constitute a basic support for the persons concerned.

- **Alimony and support allowance (1972)**

Following a divorce or separation, the amounts paid as alimony or a support allowance are, subject to certain conditions, deductible in the calculation of the support-payer's income and must be included in the beneficiary's income.

In principle, the support-payer's ability to pay tax is reduced by the payment of alimony, while the recipient's ability to pay tax increases.

However, alimony received for the benefit of a child under a court order or a written agreement handed down or concluded, as the case may be, after April 30, 1997, is no longer taxable in the hands of the beneficiary parent and may no longer be deducted by the support-payer.

– **Other specific measures**

- **Transfer between spouses of certain non-refundable tax credits (1988 to 2002, existed previously with respect to unused exemptions)**

For 1997, an individual who was married and could not take full advantage of his tax credits with respect to age, for retirement income or for a severe and prolonged physical or mental impairment because the amount of tax payable was insufficient could transfer the unused portion of these tax credits to his spouse.

From 1998 to 2002, among these tax credits, only the tax credit for a severe and prolonged physical or mental impairment can give rise to a genuine transfer between spouses since the amounts for retirement income and with respect to age may now be shared by the spouses, as they see fit.

This exceptional provision is intended to allow a household to benefit fully from the tax credits in question.

Starting in 2003, an individual can deduct, in calculating his tax payable, the amount of non-refundable tax credits that his spouse has not used in order to eliminate his tax payable

- **Non-taxation of gifts and bequests (1985)**

No tax on gifts or succession duty is payable when property is transferred by donation between living persons or because of death, as the case may be.

The elimination of the tax on gifts and of succession duties was announced in the April 23, 1985 Budget Speech. The announcement acknowledged that the transfer of property under such circumstances could give rise to a capital gain on which income tax had already been levied. Québec was the only jurisdiction in Canada to levy a tax on gifts and succession duties.

- **Non-taxation of income of Indians on a reserve (1972)**

Pursuant to the *Indian Act* and the *Cree-Naskapi (of Québec) Act*, the income of an Indian or an Indian band is not taxable if he is on a reserve or land in category IA or IA-N, hereinafter called "reserves".

Québec fiscal policy with respect to the *Indian Act* and the *Cree-Naskapi (of Québec) Act* is confined to recognizing the effect of these statutes, which fall under exclusive federal jurisdiction pursuant to the *Constitution Act, 1867*.

For reasons of tax fairness, the Québec government nonetheless extended the tax exemption stipulated in the foregoing statutes to include persons of Indian ancestry and considers certain establishments as reserves, although they are not, strictly speaking, reserves. Certain establishments group together Indian bands within a territory displaying all the traits of reserves, although they are not covered by the *Indian Act* or the *Cree-Naskapi (of Québec) of Act*.

Since 1997, Indians and persons of Indian ancestry must calculate their net income like any other taxpayer, but they may deduct in the calculation of their taxable income any portion of this income that is situated on a reserve.

- **Non-taxation of funds accumulated in a registered home ownership savings plan (RHOSP) (1975 to 1999)**

A taxpayer who is the beneficiary of an RHOSP may withdraw, tax free, all of the funds accumulated therein, provided that the excess of the funds thus withdrawn from the plan over the premiums paid into it after 1982 is used for one of the following purposes:

– the purchase of an owner-occupied home in the year of the withdrawal or within 60 days of the end of that year;

– the acquisition of new home furniture that is delivered at the latest on the 60^{th} day following the end of the year of the withdrawal;

– when the funds are withdrawn after May 9, 1996, the execution of eligible renovation work, provided that such work is effected and paid for at the latest on the 60^{th} day following the end of the year of the withdrawal.

This non-taxation will cease to apply on December 31, 1999, when the registration of all RHOSPs not yet liquidated will be revoked.

This measure was intended to support the construction, home renovation and furniture industries.

- **Non-taxation and deduction for employees of certain international governmental organizations (IGOs) (1972 and 1991)**

A non-Canadian employee of an IGO, e.g. the International Civil Aviation Organization, which is established in Québec and has concluded an agreement with the government, and the members of the employee's family, may, if they satisfy certain conditions, take advantage of a total income tax exemption.

An individual employed either by the United Nations or a specialized agency attached to the UN may deduct in the calculation of his taxable income the income derived from such employment, provided that the IGO is not established in Québec. The same is true for an employee of such an organization that is established in Québec, provided that the organization has concluded an agreement with the government stipulating an income tax exemption in respect of the remuneration derived from such employment.

The fiscal policy is intended to promote the establishment in Québec of IGOs.

- **Non-taxation for the employees of certain international non-governmental organizations (INGOs) (1986)**

A non-Canadian employee of an INGO, e.g. the International Air Transport Association and the Société internationale de télécommunications aéronautiques, which is established in Québec and has concluded an agreement with the government, and the members of the employee's family may, if they satisfy certain conditions, take advantage of a total income tax exemption.

This measure is intended to promote the establishment in Québec of INGOs.

- **Non-taxation of government housing purchase or renovation assistance programs (1981)**

The subsidies and interest rate discounts offered under government housing purchase or renovation assistance programs, e.g. the *Programme de revitalisation des vieux quartiers*, are not generally taxable.

The taxation of the amounts granted under these programs would generally curtail the effective attainment of the objectives set.

- **Deduction of moving expenses (1972)**

Generally speaking, all reasonable moving expenses, e.g. transportation expenses, living expenses, the cost of temporary housing, and so on, incurred by a taxpayer are deductible if the taxpayer moves to a place that is within at least 40 km of the place where he is to take up employment, operate a business or study full time. However, the portion of the moving expenses paid or reimbursed by the employer is not deductible.

The amount of this deduction is limited to income earned after the move. If the income thus earned is insufficient, the portion of the moving expenses not deducted may be deducted the following year. The expression "earned income" means employment income, business income, income from research grants and, for years prior to 2001, income from scholarships or bursaries.

The tax system thus compensates taxpayers in respect of the costs they assume to take up a new job, operate a new business or engage in post-secondary studies. This measure mainly promotes worker mobility.

- **Assistance for prospectors and prospecting sponsors (1972)**

When a prospector or a prospecting sponsor transfers a mining property in exchange for the shares of such a property, the tax payable is deferred until the spin-off. At that time, only part of the amount for which the mining property was transferred to the company must be included in income. This portion corresponds to the inclusion rate of a capital gain applicable at the time of the transfer of the shares.

- **Tax credit for donations (1993, existed previously in the form of a deduction)**

Prior to 2000, an individual could take advantage of a non-refundable tax credit equal to 20% (1997) and 23% (1998 and 1999) of the amount of eligible donations he made during the year or in one of the five previous taxation years, provided that the amount of such donations had not been included in the calculation of his income tax payable for a prior taxation year.

Since 2000, the tax credit for donations is calculated according to two rates. For the first $2 000 included in the calculation of the tax credit, the applicable rate is 22% (2000), 20.75% (2001) and 20% (starting in 2002), i.e. the rate used to convert recognized amounts to non-refundable tax credits. For the amount in excess of the first $2 000, the applicable rate is 25% (2000), 24.5% (2001) and 24% (starting in 2002), i.e. the maximum marginal rate applicable for purposes of calculating personal income tax.

Donations that give rise to this tax credit are donations made to a registered charity, to a municipality, to the State, to a recognized arts organization, to the UN or its agencies, to certain amateur sports associations or housing corporations, to certain universities or foreign charities and, if made after December 18, 2002, to a recognized political education organization. Donations to recognized donees of cultural property, property with heritage value if the donation is made after June 30, 1992 or land with undeniable ecological value, including a servitude in respect of such land, if the donation is made after May 12, 1994, as well as donations of the bare property of certain cultural or work of art if they are made after July 11, 2002 and satisfy a series of conditions ranging from the length of the usufruct or right of usage burdening the donated object to its custody and insurance, also give rise to this tax credit.

In the case of a donation in kind, the amount of the donation generally corresponds to the fair market value of the donated property. However, for donations of works of art to a Québec museum institution made after March 14, 2000, including eligible donations of the bare property of a work of art made after July 11, 2002, the amount used to calculate the tax credit for donations is equal to the total of the amount representing the fair market value of the work of art (or the amount that is deemed to be the fair market value) and 25% of such amount.

The total amount of donations, other than donations of cultural property, donations of property with undeniable ecological value and gifts to the State prior to April 1, 1998, that may be taken into consideration in the calculation of the tax credit for donations, is limited however to a certain level of the donor's income.

For 1997, this limit was set at 20% of the donor's income for the year, unless he died in 1998, in which case the limit was set at 100% of his income. For a year following 1997, the limit is set at 75% of the donor's income, unless he dies in the year or the year after, in which case the limit is set at 100% of the donor's income. The 75% limit may also be raised to 100% of the donor's income when the object of the donation is linked to the donee's mission.

The portion of donations made in a year that cannot, because of the limit applicable according to income, be taken into consideration in the calculation of the tax credit for donations may be carried forward five years, subject to the application, for each year of the carry-forward, of the rule limiting the amount of eligible donations to a certain level of the donor's income.

These measures are intended chiefly to promote the funding of charitable organizations and of arts and political education organizations, and are also designed to encourage the donation of works of art and property with cultural, heritage or ecological value.

- **Tax credit for contributions to a political party (1977 and 2001)**

For the years 1997 to 2000, a non-refundable tax credit was granted to a taxpayer who made a contribution to an official representative of an authorized political party, an authorized authority of such a political party or an authorized independent candidate as contemplated in the *Election Act*. This tax credit was equal to 75% of the first $200 thus paid and to 50% of the next $200, up to a maximum of $250 for the year.

To ensure that the taxation system encourages citizens to participate in democratic life not only at the national level but also at the municipal level, the tax credit for political contributions also applies, since 2001, to municipal electoral contributions. All eligible contributions, whether they are national - or municipal-level contributions, are converted into a non-refundable tax credit at a rate of 75%.

Only monetary contributions are eligible for this tax credit and the total of contributions paid must not exceed:

– $140, when the contributions are paid to a party or an independent candidate authorized to receive such a contribution under the *Act respecting elections and referendums in municipalities*;

– $400, when the contributions are paid to a political party, a party authority or an independent candidate authorized to receive such a contribution under the *Election Act*.

This measure is intended to facilitate the funding of political parties and encourage Quebecers to participate actively in democratic life.

- **Refundable tax credit for a taxi business (1984 and 2001)**

Prior to 2001, taxpayers holding a valid taxi permit could claim a refundable tax credit of $500 for each taxi permit they held, other than a taxi permit issued for taxi service in a territory consisting in whole or in part of a region subject to a reduction in the fuel tax.

However, if the vehicle or vehicles associated with a taxi permit were used by one or more drivers and if they had paid all or part of the cost of the fuel to place the vehicles in service, the taxi permit holder had to pay each driver the portion of the tax credit attributable to him in proportion to the mileage covered.

This tax credit was intended to offset a portion of the fuel tax paid in respect of a taxi vehicle service a region with no fuel tax reduction.

Since 2001, the refundable tax credit for taxi has two components.

The first component enables an individual who holds a taxi driver permit to claim a refundable tax credit of up to $500, unless he covered all or almost all the cost of the fuel to place in service any automobile associated with at least one of the permits of the taxi owner which he may, otherwise, hold.

The second component enables a taxpayer who holds one or more taxi owner permits to claim a refundable tax credit of up to an amount equal to the product obtained by multiplying $500 by the number of taxi permits he holds if he covered all or almost all the cost of fuel to place in service any automobile associated with this permit.

However, regarding either of these components, the refundable tax credit for taxi a taxpayer may receive cannot exceed 2% of his total income from his employment as a taxi driver, from his taxi service business or from the rental of the automobile associated with a taxi owner permit he holds.

The refundable tax credit for taxi is intended to provide assistance for the taxi industry.

- **Refundable tax credit for the renewal of the taxi fleet (2001 to 2010)**

Since 2001, a taxpayer who holds a taxi owner’s permit can claim a refundable tax credit of up to $500 per year for each taxi owner’s permit with which an eligible vehicle is associated, i.e. a motor vehicle five years old or less, acquired or leased before January 1, 2006 and registered as a taxi.

The refundable tax credit for the renewal of the taxi fleet is intended to encourage holders of taxi owner permits to use vehicles that are no more than five years old.

- **Premier toit refundable tax credit (1995 to 1998)**

A taxpayer who purchased a new home or renovated an existing dwelling was entitled to refundable tax credit equivalent to either:

- 20% of the interest paid during the first two years in respect of the loan he contracted to purchase a new home, up to $2 000 per year;

- 10% of the renovation expenses (minimum of $10 000) incurred in the year following the year an existing home was purchased, up to a maximum of $3 000.

To take advantage of this tax credit, the taxpayer had to purchase an eligible home between December 21, 1994 and December 31, 1995. Moreover, when the taxpayer purchased an existing home, he had to obtain an attestation from the host municipality confirming the renovation expenses incurred by submitting a request to this effect by December 31, 1997 at the latest.

This tax credit was intended to temporarily enable a greater number of taxpayers to purchase homes.

- **Property tax refund for forest producers (1985)**

The property taxes paid by forest producers actively engaged in developing their woodlots and possessing a certificate issued for this purpose by the ministère des Ressources naturelles may be subject to a refund, in an amount equivalent to 85% of the property taxes that the forest producers have paid in respect of their productive assets.

In this way, the tax system promotes the development of the Québec forest industry through the optimum development of private Québec woodlots.

- **Deferral of taxation of an eligible rebate (2002)**

Since February 21, 2002, a taxpayer who is member of an eligible cooperative can deduct, in calculating his taxable income, the amount of an eligible rebate attributed to him consisting of a preferred unit of such cooperative. Such a deduction enables a member of an eligible cooperative to defer taxation on the value of a rebate thus attributed to him. Upon the subsequent disposition of a preferred unit regarding which a deduction for eligible rebate was granted, the member must generally include, in calculating his taxable income, the amount of the deduction for rebate he claimed in relation to the unit disposed of.

For the purposes of this measure, an eligible cooperative means, in particular, a cooperative whose capitalization rate, at the end of its fiscal year ending before the taxation year in which an eligible rebate was attributed, is no greater than 50%.

This deduction applies in regard to an eligible rebate received after February 21, 2002 but no later than December 31, 2012.

This measure is intended to facilitate the capitalization of Québec cooperatives by encouraging their members to reinvest in them.

1.6 Tax measures shown for information purposes

– Basic tax credit (1988, existed previously in the form of an exemption)

The tax system granted all individuals (except in the case of a trust) a non-refundable tax credit calculated by multiplying the amount of recognized essential needs of $5 900, that is automatically indexed as of 2002, by the conversion rate stipulated for the year.

TABLE 13
PARAMETERS USED TO DETERMINE THE BASIC TAX CREDIT

Taxation year	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Basic amount	$5 900	$5 900	$5 900	$5 900	$5 900	$6 060	$6 150
Conversion rate	20%	23%	23%	22%	20.75%	20%	20%

The basic tax credit is intended to avoid taxing income that the taxpayer devotes to the satisfaction of his essential needs, e.g. food, housing, and so on, and makes it possible to integrate income security transfers and taxation.

– **Employment insurance contributions (1972)**

Employee contributions paid under federal employment insurance legislation are converted into a non-refundable tax credit at the rate of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

Moreover, employer contributions to employment insurance are deductible in the calculation of business income and are not a taxable benefit in the hands of the employees.

These rules reflect the taxation of employment insurance benefits. Furthermore, employment insurance contributions are deemed to be an expense incurred to earn income.

– **Contributions to the Québec Pension Plan (1972)**

Employee contributions to the Québec Pension Plan (QPP) or the Canada Pension Plan (CPP) are converted into a non-refundable tax credit at the rate of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

Moreover, employer contributions to the QPP or the CPP are deductible in the calculation of business income and are not a taxable benefit in the hands of employees.

Prior to 2000, contributions paid by self-employed workers entitled them, like those paid by employees, to a non-refundable tax credit.

Since 2000, only half the contribution payable by a self-employed worker to the QPP or the CPP is converted into a non-refundable tax credit at rates of 22% (2000), 20.75% (2001) and 20% (starting in 2002). The other half of the contribution paid by a self-employed worker entitles him to a deduction in calculating his net income.

The applicable tax treatment ensues from the taxation of the benefits received under the QPP and the CPP, and takes into account the compulsory nature of contributions to these plans.

The measures applicable to self-employed workers are designed more particularly so that these workers are not disadvantaged with regard to owner-operators who are also employees of their company.

– Tax credit for union and professional dues (1997, existed previously in the form of a deduction)

Since 1997, individuals who pay dues to a recognized professional association or a union can claim a non-refundable tax credit equal to the amount obtained by multiplying these dues by a rate of 20% (1997), 23% (1998 and 1999), 22% (2000), 20.75% (2001) and 20% (starting in 2002).

In virtually all cases, such dues are compulsory and are paid to allow for the occupation of a job or the operation of a business. Consequently, they may be deemed an expense incurred in order to earn income.

– Deduction of certain employment-related expenses (1972)

Generally speaking, the expenses incurred by employees in respect of their responsibilities or their job are not deductible. However, certain specific expenses pertaining to an office or employment may be deducted in the calculation of the income derived therefrom, such as travel expenses (transportation, meals and lodging), supplies consumed directly in the accomplishment of their duties, and legal expenses paid to collect wages due.

This measure recognizes that certain expenses are necessary to earn employment income and is intended to ensure that only a taxpayer's real economic gain is taxed.

– Non-taxation of allowances paid to certain public officers (1972)

An elected municipal official, a member of the National Assembly or the legislature of another province, or a member of the Senate or the House of Commons may, generally speaking, receive a non-taxable allowance in respect of expenses incurred in the accomplishment of his duties.

This measure is intended to recognize that a portion of the remuneration of an elected official or a member of the Senate is used to offset the expenses inherent in the performance of his duties. Employment expenses or expenses relating to an office are not usually deductible in the calculation of income.

– Non-taxation of indemnities paid to diplomats and other government employees stationed abroad (1972)

Diplomats and other government employees stationed abroad receive a non-taxable income supplement intended to cover the additional costs inherent in a posting outside Canada.

The non-taxation of this supplement is intended to ensure that the amount paid to a diplomat or such employees in order to compensate them is not insufficient because of the tax treatment accorded the supplement.

– Deduction of expenses of an attendant (1989)

An individual suffering from a severe and prolonged mental or physical impairment may deduct, in the calculation of his income, the fee he pays a person to provide care that allows him to engage in employment, operate a business, conduct research or perform similar work for which he has received a grant and, since 2000, attend a recognized educational institution or secondary school.

This deduction can reach two-thirds of the taxpayer's eligible income (employment and student income).

This measure is intended to facilitate the integration into the labour market of individuals suffering from a severe and prolonged mental or physical impairment and recognizes that the expenses of an attendant are incurred in order to earn income. It is also intended to make the tax system fairer between taxpayers who are physically fit for work and those who must bear additional expenses attributable to an impairment.

– Expenses incurred to earn investment income (1972)

Interest and other financial expenses, such as the fees of investment counsellors, which are incurred in order to earn business or property income, are deductible in the calculation of a taxpayer's income, except, since the 1998 taxation year, as regards safety deposit box rental fees. However, for the years 1998 to 2002, expenses incurred to earn investment income other than those attributable to a business or the rental of assets have been granted solely in conjunction with the general tax system.

This measure recognizes that certain expenses are necessary to earn income and is intended to ensure that only a taxpayer's real economic gain is taxed.

– Dividend gross-up and tax credit (1972)

While an individual usually includes in the calculation of his income amounts actually received, the dividends of taxable Canadian corporations are subject to a 25% gross-up in the calculation of income.

However, the individual may deduct from the tax otherwise payable an amount in respect of the dividend tax credit. Prior to January 1, 1999, the dividend tax credit was equivalent to 8.87% of the grossed-up dividend. In conjunction with the reform of the corporate tax system, the dividend tax credit rate was raised to 9.85% for 1999, and 10.83% for subsequent years.

These calculations are intended to establish some degree of neutrality in the tax treatment of dividend income compared to business or employment income, bearing in mind that the dividend represents the distribution of a company’s profit, which has already been taxed in the company’s hands.

– **Non-taxation of capital dividends (1972)**

Private companies may pay their shareholders, in the form of capital dividends, the exempt portion (¼ before February 28, 2000, ⅓ between February 27, 2000 and October 18, 2000, ½ since October 18, 2000) of the capital gains realized and accumulated in their "capital dividend account". Such dividends are not taxable. The capital dividend account is the same as the one calculated for federal tax purposes.

This rule is intended to recognize that the exempted portion of the capital gain realized by a company must not be subject to a taxable dividend, otherwise the principle of the partial exemption of the capital gain could not be maintained when the gain is realized by a company. However, such a rule applies solely to private companies.

– **Deduction of farm losses of part-time farmers (1972)**

Individuals for whom farming is a secondary source of income may deduct against their other types of income their farm losses, up to a maximum of $8 750 a year.

The non-deductible portion in the current year may be carried back over three years and carried forward over 10 years, up to the equivalent of the income derived from a farming enterprise.

This restriction is imposed on so-called hobby farmers who have a reasonable expectation of turning a profit. It has the effect of limiting the loss likely to be deducted against other sources of income, contrary to other business losses, which are unlimited.

This limit on the deduction of the loss against other sources of income is intended to ensure that the special provisions applicable to farmers are not used as a tax shelter by taxpayers who receive substantial non-farming income.

– **Carry-over of farm and fishing losses (1972)**

Since 1983, farm and fishing losses have been subject to a carry-back of three years and a carry-forward of 10 years (previously, seven years) Other business losses may be carried forward seven years.

This more flexible measure is intended to take into account the specific conditions facing farmers, whose income usually fluctuates appreciably. Moreover, their economic cycle is generally longer.

– **Capital loss carry-over (1972)**

A capital loss may result in the disposal of a capital asset.

A net capital loss, i.e. briefly, the excess of a taxpayer's eligible capital losses for a given year over his taxable capital gains in the same year, may be carried back over the three years preceding the year in which the loss is sustained and carried forward indefinitely in subsequent years. However, a taxpayer may usually only deduct a net capital loss against his net taxable capital gains.

The indefinite carry-forward stipulated in tax legislation reflects the nature of a capital gain or loss, which is not usually recurrent.

– **Carry-over of losses other than capital losses (1972)**

Losses other than capital losses may be carried back for three years and carried forward for seven years and charged against other income.

This measure is intended to better match income and losses in a given economic cycle.

– **Non-taxation of lottery and gambling earnings (1972)**

Lottery and gambling earnings are excluded from income for tax purposes.

Essentially, this exclusion stems from the fact that lottery winnings or gambling earnings are the result of chance and are not a recurrent source of income.

– **Foreign tax credit (1972)**

An individual residing in Québec or a company residing in Canada and operating a business in Québec is entitled, subject to certain restrictions, to a tax credit in respect of tax paid to a government of a jurisdiction other than a Canadian jurisdiction.

This tax credit is intended to avoid double taxation and ensures that the taxpayer pays the greater of Québec tax attributable to income taxed abroad, or the foreign tax attributable to such income.

– Credit for tax of another province (2002)

In some circumstances, a Québec beneficiary of a trust that resides in Canada, but outside Québec, is entitled to a tax credit in respect of amounts attributed to him but regarding which the trustee of the trust has elected to have them taxed in the hands of the trust.

This tax credit is designed to prevent the same amount from being taxed in more than one province. In general, this tax credit corresponds to the tax paid by the trust to a province other than Québec, in respect of amounts covered by such election.

– Amounts exempt from tax under a tax agreement (1982 and 1987)

The tax system stipulates that tax agreements between the Québec government and a foreign state take precedence to avoid double taxation and prevent tax avoidance regarding income tax and wealth taxes.

If Québec does not have a tax agreement with a given state, the tax system considers certain provisions of tax agreements reached by the Canadian government. This recognition consists of a deduction in calculating taxable income in respect of amounts that, under the terms of the agreement, are taxable solely in the foreign state.

The purpose of this measure is to avoid double taxation.

– Recovery of averaged income (1982 to 1997)

For the years 1982 to 1987, individuals whose income exceeded, during the year, 110% of the adjusted average income of the preceding three years could elect to average the excess. Such excess was deductible in calculating taxable income and gave rise to a special tax at the highest marginal rate.

The averaged amounts deducted for years prior to 1988 could be reintegrated into income in a subsequent year, up to 1997, inclusive and gave rise, for the year of their reintegration, to a non-refundable tax credit at the highest marginal rate.

The income averaging system was eliminated as part of the 1987 tax reform because of the lowering of tax rates and the reduction of the number of tax brackets.

2. TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM

2.1 Income tax

– Reduced tax rates and exemptions

- **Reduced tax rate for small businesses (1972)**

Until June 30, 1999, most Canadian-controlled private corporations (CCPC) were entitled to a reduction in their tax rate, commonly called the "small business deduction" (SBD) The SBD reduced the rate of Québec income tax applicable on the first $200 000 of income from an eligible business carried on by a CCPC by 3.15 percentage points.

Briefly, any business carried on by a corporation was eligible for this deduction, other than certain businesses whose major objective was to earn income from property or to provide services which, in fact, were supplied by the shareholder of such corporation, as part of a relation with his customers which was similar to an employer-employee relation.

However, it is to be noted that large private corporations, like large public corporations, could no longer claim the SBD (gradual loss beginning at paid-up capital of $10 million, with total loss at $15 million).

This reduced tax rate attempted to introduce a degree of progressivity in tax payable by corporations, by favouring small and medium-size enterprises (SMEs)

The measure was eliminated as part of the corporate taxation reform announced on March 31, 1998. It no longer applies for taxation years ending after June 30, 1999.

- **Reduced tax rate for savings and credit unions (1972)**

Like any other Canadian-controlled private corporation, a savings and credit union was entitled, before the corporate taxation reform announced on March 31, 1998, to the SBD, but regarding a greater amount than the first $200 000 of income from an eligible business it carried on. This additional reduction of 3.15 percentage points in the tax rate applied as long as the cumulative earnings of the credit union had not reached an amount equal to the amount of its maximum cumulative reserve.

Briefly, the maximum cumulative reserve of a savings and credit union is equal to 5% of the amounts it owes to its members (including its deposits and the amount of shares held by its members).

The purpose of the measure was to enable a savings and credit union to build up capital under favourable tax conditions, up to 5% of its deposits and its capital.

As part of the corporate taxation reform, it was announced that, while a credit union would no longer be entitled to the basic SBD because of its repeal, it would continue to be entitled to a deduction equivalent, in value, to those it would have obtained under the rules applicable prior to the reform.

- **Exemption of registered charities and non-profit organizations (1972)**

Registered charities and non-profit organizations, whether incorporated or not, are exempt from income tax.

This is a preferential measure explained by the nature of the activities carried out by such organizations.

- **Exemption of government organizations (1972)**

Municipalities, public organizations carrying out government functions, provincial government corporations and most federal Crown corporations are exempt from income tax. However, some federal Crown corporations, generally those carrying on significant commercial operations, are taxable.

The purpose of this measure is to avoid collecting tax on activities which, in fact, are government activities. In the particular case of taxable federal Crown corporations, they are subject to tax because of the nature of the activities they carry out and to ensure that they do not enjoy an unfair advantage compared to their taxable competitors.

- **Five-year tax holiday for new corporations (1986)**

Québec's tax system provides for a tax exemption on the income of new Canadian-controlled private corporations for the first five years of operation. This exemption applies to the first $200 000 of income from an eligible business carried on by the corporation. The tax holiday was for three taxation years for corporations whose first taxation year started before March 26, 1997.

Briefly, any business carried on by a corporation is eligible, other than certain businesses whose major objective is to earn income from property (an apartment building, for instance) or to provide services which, in fact, are supplied by the shareholder of such corporation, as part of a relation with his customers which is similar to an employer-employee relation. A corporation may be eligible for the tax holiday for a taxation year if its paid-up capital for the preceding taxation year does not exceed $15 million.

A deduction is also allowed to such a corporation in calculating its paid-up capital for the purposes of the tax on capital.[5]

The tax holiday for new corporations was broadened in the May 9, 1996 Budget Speech. A new corporation may also claim an exemption regarding its employer contributions to the Health Services Fund (HSF) attributable to wages paid or deemed paid during its initial years of operation.[6]

The purpose of this measure is to encourage the formation of new businesses and offer some recognition of the significant costs involved in starting up a business.

- **Tax holiday for international financial centres (1986)**

An international financial centre (IFC) is a business or part of a business established in Montréal all of whose activities pertain to qualified international financial transactions (QIFTs)

Briefly, a corporation or the members of a partnership, as the case may be, which operates an IFC in Montréal, as well as certain of their employees, can claim various tax benefits, namely:

– a total or partial exemption, as the case may be, from tax on the profits on QIFTs;

– an exemption from the tax on capital regarding the paid-up capital reasonably attributable to the operations of the IFC;

– an exemption from employer contributions to the HSF and the compensatory tax of financial institutions regarding the salaries paid to employees of the IFC;

– a refundable tax credit relating to the apprenticeship period of young specialized employees;

– a refundable tax credit for canvassing expenses;

– a refundable tax credit for canvassing expenses incurred to obtain a mandate to manage foreign investment funds;

– a full tax exemption, for five years, for foreign specialists employed by an IFC;

– a partial tax exemption, equivalent to 50% of their remuneration, for Canadian employees of an IFC.

5 This deduction is described separately in the section "Tax on capital".

6 This deduction is described separately in the section "Health Services Fund."

Many changes were made to the rules governing IFCs on March 31, 1998 . In addition to stipulating the consolidation, within a separate law, of the tax and prescriptive provisions relating to IFCs, these changes were also designed to broaden the range of eligible activities, ease certain requirements and introduce refundable tax credits for IFCs.

In terms of income tax, the benefit granted to operators of an IFC consists of a total tax exemption of the profits earned from QIFTs. This exemption is 100% if the operator is a corporation and, if the operator is a partnership, 30% in the case of a member who is an individual who resides in Canada and 100% in other cases.

The purpose of this tax exemption is to encourage companies in the financial sector to set up an IFC in Montréal in order to carry out certain transactions of an international nature, such as portfolio management for persons who are not residents of Canada, foreign securities management or exchange operations.

- **Tax holiday for corporations carrying out an innovative project in certain designated sites (1997)**

The concept of designated sites for carrying out innovative projects was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI). New economy centres (CNE) were created in the March 9, 1999 Budget Speech and the concept was extended to these designated sites.

Briefly, this measure is intended to support companies that promise to undertake, within certain designated sites, innovative projects in specific fields. In the case of corporations that carry out an innovative project in a CDTI or in a CNE, the specific field is information and communications technologies.

The concept of designated sites for carrying out innovative projects was extended to the biotechnology sector. The first biotechnology development centre was designated in Laval. Others were subsequently designated elsewhere in Québec. In the case of biotechnology development centres the target field is biotechnology since these sites are dedicated exclusively to this sector.

Corporations that carry out an innovative project in one of these various types of designated sites can claim the following tax benefits:

- an exemption from income tax;
- an exemption from the tax on capital;
- an exemption from employer contributions to the HSF;

– a refundable tax credit for wages paid to eligible employees;

– a refundable tax credit for the acquisition or lease of eligible specialized equipment.

In the specific case of a corporation that carries out an innovative project in the biotechnology sector in a biotechnology development centre, it can also claim a refundable tax credit of 40% of the amount of eligible rental expenses relating to the short-term rental, during its five-year tax holiday, of eligible specialized facilities.

Furthermore, a foreign specialist employed by a corporation carrying on a business in one of these various types of designated sites may benefit, for a period of five years, from an exemption from tax on his income from such employment.

Concerning income tax more specifically, a corporation which carries out an innovative project in one of these various types of designated sites can claim an income tax exemption for its first five years of operation.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to receive these tax benefits.

- **Tax exemption regarding income earned from the administration and management of new investment funds (1998)**

Tax benefits were introduced on March 31, 1998 to support the development of new investment funds administered and managed in Québec. Tax assistance was granted to eligible corporations that created such funds after December 31, 1997 and before April 1, 2001.

This tax assistance consisted of a refundable tax credit for eligible start-up expenses incurred in relation to the creation of eligible investment funds,[7] as well as a tax exemption regarding the income earned from the administration and management of such funds.

More specifically, this income tax exemption was granted to an eligible corporation, for a period of five years, regarding the revenue it earned from the administration and management, in Québec, of eligible investment funds.

By stimulating the creation of investment funds in Québec, this measure was designed to develop Québec expertise in portfolio management and the development of financial products.

[7] This tax expenditure is described separately in the sub-section "Refundable tax credits".

- **Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel (1999)**

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the location of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

For this purpose, a corporation that carries on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, the Economy and Research, is of particular interest for Québec's economy, can claim a tax exemption on the income earned from such business, generally until December 31, 2013.

In addition, more generally, such corporation, as well as certain of its employees, can also claim various tax benefits, namely:

– an exemption from the tax on capital in relation to the portion of the corporation's paid-up capital that is reasonably attributable to the operation of such eligible business;

– an exemption from employer contributions to the Health Services Fund (HSF) regarding wages paid to certain eligible employees;

– a refundable tax credit on the wages of eligible employees;

– a refundable tax credit regarding an eligible customs brokerage contract;

– a refundable tax credit in respect of the acquisition or lease of eligible specialized equipment.

– a refundable tax credit for the construction of strategic buildings;

– a total income tax exemption, for a period of five years, granted to certain foreign specialists.

These tax benefits are described in greater detail under specific headings in this regard.

- **Tax holiday for eligible corporations under the support the development of stock exchanges and securities clearing-house corporations in Montréal (2000)**

In general, a corporation that, during a taxation year, carries on a securities exchange or a securities clearing corporation business in Québec, runs operations as such in an establishment located within the territory of the city of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, can benefit from tax measures to support the development of stock exchanges and securities clearing-houses.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, exemption from income tax, an exemption from the tax on capital[8] and an exemption from employer contributions to the Health Services Fund[9] (HSF) in relation to the securities exchange or securities clearing corporation business they carry on within the territory of the city of Montréal.

Concerning income tax more specifically, these support measures consist of a deduction, in the calculation of the taxable income of an eligible corporation, of the income from operations it carries out as a securities exchange or securities clearing corporation, for any taxation year or portion of a taxation year starting on October 1, 2000 and ending December 31, 2010.

These measures are intended to accelerate the positioning of the Montréal Exchange on the global financial derivatives market and encourage greater access to capital markets for Québec corporations.

- **Tax holiday for major investment projects (2000)**

On March 14, 2000, the government implemented a tax holiday for major investment projects. This tax holiday replaces the rate guarantee mechanism that was to ensure stable tax rates for businesses that undertake major investment projects.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from employer contributions to the HSF relating to the business carried on following the completion of the major investment project.

8 This deduction is described separately in the section "Tax on capital".

9 This deduction is described separately in the section "Health Services Fund".

In general, to qualify as a "major investment project", an investment project must be carried out in the primary sector, the manufacturing sector or the propulsive services sector, with the exclusion of placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental to it, are also eligible if they consist in building an international resort centre. Furthermore, some criteria must be satisfied within specific timeframes, particularly regarding minimum investment thresholds to be achieved as well as payroll growth. Lastly, to obtain the tax holiday an initial eligibility certificate as well as annual eligibility certificates must be obtained from the Minister of Finance, the Economy and Research.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

Concerning income tax more specifically, a corporation can benefit, for the ten-year period beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax consisting of a deduction in the calculation of taxable income. This deduction is based on the income the corporation earns from the separate business, i.e. the income earned from the activity carried on following the completion by the corporation of the major investment project.

This tax holiday is designed to further encourage companies to undertake major investment projects in Québec.

- **Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)**

On March 29, 2001, a ten-year tax holiday for small and medium-sized manufacturing enterprises (SMEs) in remote resource regions was introduced to stimulate economic development in these regions, where the employment situation is the most difficult.

In general, a corporation all of whose activities consist mainly in carrying on a manufacturing or processing business in one of Québec's remote resource regions can benefit, from March 30, 2001 until December 31, 2010, from a tax holiday in relation to income tax, the tax on capital and employer contributions to the Health Services Fund (HSF). The tax bases covered by this tax holiday are not capped.

In this regard, a corporation's activities as a whole consist mainly in carrying on a manufacturing or processing business if over 50% of its payroll or more than 50% of its assets are attributable to manufacturing or processing.

Québec's remote resource regions consist of the Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine administrative regions and the Antoine-Labelle, Vallée-de-la-Gatineau, Pontiac, Haut-Saint-Maurice and Mékinac RCMs.

A corporation receives the full tax holiday for a taxation year if its paid-up capital applicable for such year, calculated on a consolidated basis, does not exceed $20 million. However, a partial tax holiday is granted, for a taxation year, if the paid-up capital applicable for such year, calculated on a consolidated basis, is between $20 million and $30 million.

An eligible corporation can claim the tax holiday on all its income from an eligible business. The tax holiday consists of a deduction in calculating taxable income.

A deduction is also allowed such a corporation in calculating its paid-up capital for the purposes of the tax on capital.[10]

Lastly, such a corporation may also receive an exemption from employer contributions to the HSF attributable to wages paid or deemed paid.[11]

- **Exemption of labour-sponsored funds (1989)**

The corporation governed by the *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* and the corporation governed by the *Act to establish Fondaction, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction),* do not have to pay income tax, since they can claim a deduction equivalent to their taxable income.

The purpose of this measure is to increase the funds available to the Fonds de solidarité des travailleurs du Québec and Fondaction to encourage job creation and investment in small and medium-size Québec companies.

- **Exemption of Capital régional et coopératif Desjardins (2001)**

Capital régional et coopératif Desjardins is a joint stock company with the mission of marshalling venture capital for the resource regions of Québec and cooperatives. It is authorized to collect, up to December 31, 2010, up to $1.5 billion of capital enjoying a tax benefit.

10 This deduction is described separately in the section "Tax on capital".

11 This deduction is described separately in the section "Health Services Fund".

Capital régional et coopératif Desjardins pays no income tax since it may deduct an amount equivalent to its taxable income.

The purpose of this measure is to increase the funds available to Capital régional et coopératif Desjardins to invest in resource regions and foster the capitalization of cooperatives.

- **Non-taxation of tax credits**

Some tax credits stipulated in Québec's tax legislation are not taxed by Québec even though they constitute a form of assistance received from the government and such assistance is generally taxable. In particular, this applies to tax credits for scientific research and experimental development, the tax credit for design, the tax credit for on-the-job training periods, the tax credit for the construction or conversion of ships, the tax credit for the upkeep of racehorses and the tax credit for resources.

Québec does not tax Québec tax credits to avoid diminishing the assistance otherwise granted to businesses through these tax credits.

As for the tax credits stipulated in federal legislation, they are generally taxable.

– **Deductions**

- **Deduction relating to resources (1975)**

The tax legislation provides for a deduction relating to resources which is equal to 25% of the profits the taxpayer earns from resources in the year, before deducting exploration expenses, development expenses and interest expenses.

The deduction relating to resources makes allowance for the non-deductibility of royalties paid to the Crown, mining duties and other charges applicable to oil, gas or mining production. Accordingly, it is designed to ensure that developers of oil, gas or mining resources do not bear an excessive tax burden.

- **Deductibility of royalties paid to Indian bands (1975)**

Royalties and rent paid to Indian bands regarding oil and gas leases on Indian reserves are considered to be amounts paid in trust to the Crown in right of Canada for the use and benefit of the Indian band in question. Unlike public charges which are not deductible, amounts paid to an Indian band are generally deductible for income tax purposes.

In addition, the earnings derived from resources, after deducting government charges, entitle the taxpayer to the deduction relating to resources.

- **Deductibility of gifts (1972)**

A corporation may deduct, in calculating its taxable income, the amount of eligible gifts it made during a year or one of the five preceding taxation years, provided the amount of such gifts was not included in calculating its taxable income for a prior taxation year.

Gifts that give rise to this tax credit are donations made to a registered charity, to a municipality, to the State, to a recognized arts organization, to the UN or its agencies, to certain amateur sports associations or housing corporations, to certain universities or foreign charities and, if made after December 18, 2002, to a recognized political education organization. Donations to recognized donees of cultural property, property with heritage value if the donation is made after June 30, 1992 or land with undeniable ecological value, including a serviture in respect of such land, if the donation is made after May 12, 1994, as well as donations of the bare property of certain cultural property or work of art if they are made after July 11, 2002 and satisfy a series of conditions ranging from the length of the usufruct burdening the donated object to its custody and insurance, also give rise to this deduction.

In the case of a donation in kind, the amount of the donation generally corresponds to the fair market value of the donated property. However, for donations of works of art to a Québec museum institution made after March 14, 2000, including eligible donations of the bare property of a work of art made after July 11, 2002, the amount used to calculate the deduction for donations is equal to the total of the amount representing the fair market value of the work of art (or the amount that is deemed to be the fair market value) and 25% of such amount.

The total amount of donations, other than donations of cultural property, donations of property with undeniable ecological value and gifts to the State prior to April 1, 1998, that may be included in the calculation of the deduction for donations is limited, however, to a certain level of the corporation’s income.

For a taxation year starting before January 1, 1998, this limit is 20% of the corporation’s income for the year. For a taxation year beginning after December 31, 1997, the 20% limit on the corporation’s income rises to 75% of such income and may even reach 100% when the purpose of such gift is related to the mission of the donee.

The portion of donations made in a year that cannot, because of the limit applicable according to income, be included in the calculation of the deduction for donations may be carried forward for five years, subject to the application, for each year of the carry-forward, of the rule limiting the amount of eligible donations to a certain level of the donor’s income.

These measures are intended to promote the funding of charitable organizations and of arts and political education organizations. They seek to encourage the donation of works of art and property with cultural, heritage or ecological value.

- **Deductibility of countervailing and antidumping duties (1998)**

In accordance with the rules of the World Trade Organization, countervailing and antidumping duties can be imposed on a country to offset losses caused by imports of subsidized or under-valued goods. Consequently, taxpayers may have to pay such duties to export their products. On March 31, 1998, the incorporation into Québec's tax legislation of a federal measure stipulating that cash payments made to pay such duties are deductible from income in the year in which they are paid, even if they can be refunded, in whole or in part, in a subsequent year was announced. The refunds or other amounts subsequently received, such as interest, are included in income in the year they are received.

The tax expenditure corresponds to the relief allowed to the taxpayers by authorizing them to deduct such contingent expenses from their earnings when they are paid, and not when the exact amount of the duties, if any, is determined. The tax expenditure is positive or negative depending on the amount of the countervailing duties paid or recovered by taxpayers in a year.

- **Deductibility of allowances for earthquakes (1998)**

In general, the income of an insurance company is calculated like that of any other company. However, special rules sometimes apply, for instance concerning amounts that may be deducted as allowances in relation to insurance.

On March 31, 1998, it was announced that allowances constituted in accordance with the guideline on sound practices applicable to commitments relating to earthquakes issued by the Inspector General of Financial Institutions of Québec, would be allowable as a deduction in calculating the income of an insurance company.

This measure is designed to support insurance companies that henceforth must make provision to guarantee that they have sufficient financial resources to cover losses caused by earthquakes when they occur.

– **Tax credits**

- **Refundable tax credits for scientific research and experimental development (R&D) (1983)**

Various refundable tax credits are provided for R&D. These tax credits amount to:

- 20% on the salaries of researchers (40% of the first $2 000 000 of annual salaries in the case of corporations with assets of less than $25 million; however, a linear reduction in the rate of the 40% tax credit was introduced for corporations with assets between $25 and $50 million);
- 40% of the eligible expenditure, for a university research contract, or a contract concluded with an eligible public research centre or with a research consortium;
- 40% for a pre-competitive research project, a catalyst project or an environmental technology innovation project;
- 40% of dues or contributions paid to a research consortium.

The purpose of these measures is to stimulate R&D in Québec, in terms of both human capital and more intense cooperation between businesses, universities and research centres.

- **Super-deductions for R&D (1999)**

For taxation years of corporations beginning after June 30, 1999 and before March 1, 2000, corporations otherwise eligible for the refundable tax credits for R&D may elect to forego them in favour of super-deductions in calculating their income. In general, the rates of the super-deductions are 460% for corporations with assets of less than $25 million. This rate declines linearly for corporations with assets between $25 and $50 million, reaching 230% for those with assets of $50 million or more. Rates are also 460% for university research contracts (or contracts with an eligible public research centre or a research consortium), pre-competitive research, a catalyst project or an environmental technology innovation project and contributions or dues payable to a research consortium.

The super-deduction election can apply to all or part of the amount used as the basis for calculating a refundable tax credit and irrevocably replaces the entitlement to any of the refundable tax credits to which the corporation would have been entitled.

This measure is designed to optimize the tax benefits relating to R&D activities carried out in Québec.

However, in its February 28, 2000 budget, the federal government announced amendments to the federal tax legislation to tax the value of a benefit arising from a provincial super-deduction for R&D. accordingly, there was no longer any purpose served by the Québec super-deductions for R&D. Consequently, super-deductions regarding R&D were withdrawn in relation to taxation years of corporations beginning after February 29, 2000.

- **Refundable tax credit based on the increase in R&D expenditures (1999)**

A corporation otherwise entitled to the refundable tax credit on R&D wages at 40% may, for taxation years beginning after June 30, 1999 and before July 1, 2004, claim a refundable tax credit based on the increase in all R&D expenditures used as a basis for calculating Québec refundable tax credits for R&D, made by the corporation in a taxation year, compared with the average of all such expenditures made by the corporation during its three preceding taxation years.

The rate of this tax credit is 15%. In addition, a corporation could elect, for a taxation year beginning before March 1, 2000, to claim an additional super-deduction at a rate of 190%, in place of this tax credit.

The purpose of this measure is to provide more tax assistance to small and medium-size enterprises which allocate more resources to increasing their R&D activities.

- **Refundable tax credit for technology adaptation services (1999)**

On March 9, 1999, a two-part refundable tax credit was introduced for corporations with assets of less than $25 million, to support them in gathering and processing strategic information, as well as in their research and innovation cooperation efforts.

This tax credit is equal to 40% of certain expenditures incurred with an eligible business watch centre, an eligible liaison and transfer centre or an eligible technology transfer centre, as the case may be. These expenditures include 80% of fees relating to watch or liaison or transfer services provided by such centres and the amount of subscription fees for products or services they offer.

This measure applies to expenditures incurred with such centres after March 9, 1999.

- **Refundable tax credit for design (1994)**

The refundable tax credit for design has two components:

– a refundable tax credit granted under a contract with a design consultant: credit of 40% or 20% (depending on whether or not the corporation qualifies as an SME) of the cost of an outside consulting contract relating to design activities;

– a refundable tax credit for design carried out by the corporation in-house in the fashion and furnishings sector: credit of 40% or 20% (depending on whether or not the corporation qualifies as an SME) of salaries incurred for designers it employs.

The 40% rate available to SMEs is reduced linearly for corporations with assets between $25 million and $50 million.

Furthermore, to benefit from this tax credit, eligibility certificates must be obtained from the Minister of Finance, the Economy and Research regarding eligible corporations and recognized designers.

This tax credit is designed to support and accelerate the innovation efforts of a company that has decided to pursue the design function to compete more effectively.

- **Refundable tax credit for on-the-job internships (1994)**

A company that accepts a student or an apprentice for an eligible on-the-job internship is entitled to a refundable tax credit of 40% (20% in the case of unincorporated businesses), regardless of the size of the company. The training expenditures eligible for this tax credit consist of the wages the company pays to the interns or apprentices it accepts and the wages paid to employees who supervise the internship.

This tax credit is limited to $200 per week per intern, and to $250 per week per apprentice ($200 for apprenticeship internships beginning after April 1, 1998). In addition, the number of hours allocated to support work by the internship supervisor cannot exceed ten hours per week per intern, or twenty hours per week per apprentice (ten hours per week for apprenticeship internships beginning after April 1, 1998), as the case may be.

An additional component, called "Stage Québec", was introduced on March 29, 2001. This new component is intended to enable access to the tax credit for on-the-job internships in respect of internships carried out by students enrolled in a graduate university education program.

The tax credit for on-the-job internships is designed to encourage companies to accept interns and seeks to promote the improvement of professional qualifications for young people.

- **Refundable tax credit for training (1990)**

Corporations that carried on a business in Québec could claim a refundable tax credit equal to 20% or 40% of the amount of most of their eligible training expenditures, including salaries paid to their employees during training. The higher rate of 40% applied to SMEs.

Following the introduction of the *Act to foster the development of manpower training*, which stipulates that companies are required to allocate 1% of their payroll each year to eligible training expenditures, this tax credit was gradually eliminated from 1996 to 1998 and no longer exists since January 1, 1999.

This measure was designed to bolster manpower training by encouraging companies to invest in human capital.

- **Refundable tax credit for job creation (1997)**

For calendar years 1997 and 1998, a Québec employer who created jobs could generally claim a reduction in payroll taxes regarding the jobs so created. This reduction consisted of a refundable tax credit.

Briefly, this tax credit was equal to $1 200 for each new full-time job created during one of these calendar years, by an employer whose contributions to the HSF had risen during such year. It could reach a maximum of $36 000, for a calendar year, representing the creation of 30 full-time jobs.

More specifically, for a job held by an employee to qualify as a full-time job, for a calendar year, such employee had to work at least 26 hours per week, for at least 40 weeks ending in such calendar year.

This tax credit was withdrawn for a calendar year following 1998. However, on March 9, 1999, transition rules, applicable for calendar year 1999, were introduced to recognize the fact that certain employers had undertaken significant job creation efforts prior to the announcement of the withdrawal of this tax credit.

This tax credit was designed to bolster the creation of full-time jobs.

- **Refundable tax credit for Québec film and television production (1991)**

The refundable tax credit for Québec film and television production covers the labour expenditures incurred by a corporation in relation to the production of a "Québec film", this expression also covering variety and certain magazine shows. As of January 1, 2000, closed-captioning for the hearing impaired is compulsory for a Québec film intended for broadcast in Québec.

On September 1, 2001, the maximum amount of the tax credit that could be granted in relation to a production or a series was raised from 15% to 16.67% of production costs. This increase stems from changes made to the production expense components of a film for the purposes of the tax credit, solely for the purpose of maintaining the same level of tax assistance. Accordingly, the cap based on production expenses was raised from 45% to 50%. In the case of certain French-language feature films and certain documentaries, the maximum amount of the tax credit that could be granted was raised from 20.25% to 22.5% of production expenses. In all cases, the amount of the tax credit is limited to $2.5 million per production or series.

Previously reserved for independent producers, the tax credit was made available to private broadcasters in 1998. Apart from certain exceptions, the volume of production which thus became eligible for the tax credit as well as the refundable tax credit for film or television production services was limited to $20 million per year, for five years.

The tax credit for Québec film and television production is designed to support the production of films and television shows by Québec companies.

- **Increase in tax assistance for special effects and computer animation (1998)**

Labour expenditures, other than those relating to certain French-language feature films and certain documentaries, relating to the execution of special effects or computer animation for use in an eligible film or television production, give rise to an increase in the rate of the tax credit applicable to such expenditures. Accordingly, assuming that the labour expenditures eligible for the increased rate account for 50% of production expenses, the effective rate of the credit rises from 20.25% to 22.5% of production expenses.

- **Increase in tax assistance for regional film and television productions (1999)**

Apart from those made by private broadcasters, regional film and television productions otherwise eligible for the tax credit are also eligible for an increased tax credit. This increase consists of an increase in the rate of the credit applicable to certain labour expenditures. Accordingly, when the various conditions are satisfied, the effective rate of the tax credit rises from 16.67% or 22.5% of production expenses, as the case may be, to a maximum of 27.75% of production expenses. Labour expenditures eligible for this increase are exclusively those directly attributable to services supplied in Québec, outside the Montréal region.

- **Increase in tax assistance for giant screen films (2002)**

The rate of the refundable tax credit for eligible labour expenditures incurred in the course of production of giant screen films is raised to 45%. However, the labour expenditures eligible for this increase cannot exceed 50% of the production expenses of a giant screen film, so that the amount of tax assistance can reach a maximum of 22.5% of such expenses.

- **Refundable tax credit for film and television production services (1998)**

The refundable tax credit for film and television production services covers Québec labour expenditures attributable to the various stages of production or execution of a foreign production or a production which does not satisfy Québec content criteria giving rise to the refundable tax credit for Québec film or television production.

The amount of the tax credit is equivalent to 11% of eligible labour expenditures. Accordingly, assuming eligible labour expenditures account for 60% of production costs, the effective rate of the tax credit is 6.6% of the cost of the production.

In the same way and with the same restrictions and obligations as regarding the refundable tax credit for Québec film and television production, private broadcasters are eligible for this tax credit.

- **Increase in tax assistance for special effects and computer animation (1998)**

In the same way as in the case of the refundable tax credit for Québec film and television production, labour expenditures eligible for the tax credit for film and television production services and relating to the execution of special effects or computer animation for use in an eligible film or television production give rise to an increase in the rate of the applicable tax credit. This increase corresponds to an additional rate of 20% of eligible labour expenditures. Accordingly, continuing with the assumption that 60% of production costs represent labour expenditures eligible for the increase, the effective rate of the tax credit would rise from 6.6% to 18.6% of production costs in some cases, and from 0% to 12% of production costs in the case of small budget productions that fail to satisfy the minimum cost rules to be eligible for this tax credit.

The refundable tax credit for film or television production services is designed to stimulate job creation in Québec by encouraging foreign producers to film their productions in Québec.

- **Refundable tax credit for dubbing (1997)**

The refundable tax credit for dubbing covers labour expenditures relating to certain services supplied in Québec and inherent in the process of dubbing film or television productions. In general, productions eligible for this tax credit are the same as those eligible for the refundable tax credit for Québec film and television production, without the Québec content requirements.

This tax credit is equal to 33 ⅓ % of the amount of the eligible labour expenditures, which are limited, however, to 40.5% of the consideration paid for the execution of the dubbing contract, excluding the GST and the QST.

The purpose of this measure is to support dubbing activities carried out in Québec and to enable companies in this sector to expand their market.

- **Refundable tax credit for sound recording production (1999)**

The refundable tax credit for sound recording production covers labour expenditures attributable to services supplied in Québec for the production of eligible sound recordings. In general, sound recordings eligible for this tax credit are those with significant Québec content.

This tax credit is equal to 33 ⅓ % of the amount of the eligible labour expenditures, which are limited, however, to 45% of the eligible production expenses of the sound recording. Tax assistance can accordingly reach 15% of the production expenses of the sound recording. In addition, the tax credit, for an eligible sound recording, may in no event exceed $50 000.

The purpose of this tax credit is to encourage consolidation of the Québec recording industry, reduce production costs assumed by companies and sustain job creation.

- **Refundable tax credit for the production of shows (1999)**

The refundable tax credit for the production of shows covers labour expenditures attributable to services supplied for the production of eligible shows. In general, shows eligible for this tax credit are those with significant Québec content.

Initially, the tax credit for the production of shows essentially covered musicals. However, since July 5, 2001, it also covers the production of drama, comedy, mime and magic shows.

This tax credit is equal to 33 ⅓ % of the amount of the eligible labour expenditures, which are limited, however, to 45% of the eligible production expenses of the show. Tax assistance can accordingly reach 15% of the production expenses of the show. In addition, the tax credit, for an eligible show may in no event exceed $300 000.

This tax credit is designed to encourage consolidation in the Québec show business industry, enable the production of shows with larger budgets and support job creation.

- **Refundable tax credit for eligible digital shows (2000)**

On October 6, 2000, the government implemented a refundable tax credit for eligible digital shows.

This refundable tax credit has two components and enables an eligible corporation that produces an eligible digital show in Québec to receive, for a taxation year, a refundable tax credit corresponding, for the first component, to 40% of the eligible labour expenditures it incurs during such year and, for the second component, to 40% of the capital cost or lease expenses of eligible equipment it acquires or leases during such year. However, this tax credit is capped, for an eligible corporation, at $8 million, for the entire period regarding which such eligible expenditures can be incurred.

The tax credit applies for a digital show of an eligible corporation presented in public in Québec for the first time after October 6, 2000 and for which an application for an eligibility certificate was submitted to Investissement Québec by the corporation after such date and before January 1, 2003, in relation to eligible labour expenditures incurred by the corporation before January 1, 2003, to eligible equipment acquired by the corporation before January 1, 2003, and to rent paid by the corporation in relation to the lease of eligible equipment attributable to a rental period prior to January 1, 2003.

An eligible digital show of a corporation means a digital show produced in Québec regarding which the corporation obtained an annual eligibility certificate from Investissement Québec to the effect that all the applicable criteria have been satisfied.

This tax credit is designed to support the production, in Québec, of shows that make use of specific technology, requiring a significant investment, and helping to make Québec know-how better known.

- **Refundable tax credit for book publishing (2000)**

The refundable tax credit for book publishing covers the labour expenditures attributable to the preparation and printing of an eligible book or an eligible group of books. In general, an eligible corporation may, under certain conditions, benefit from a tax credit providing assistance ranging between 10% and 20% of the total preparation and printing expenses of an eligible book or a book that is part of an eligible group of books.

To be eligible, a book, in particular, must be the work of a Québec author, and a certain percentage of the preparation and printing expenses must be paid to Quebecers or to corporations with an establishment in Québec.

This tax credit was implemented to further support book publishing activities, enabling Québec publishers to penetrate foreign markets for Québec productions, produce major publishing projects and develop the translation market.

- **Refundable tax credit for the maintenance of a racehorse (2000)**

This refundable tax credit was introduced to help the financial recovery of the horse racing industry in Québec. In general, this tax credit covers certain expenditures incurred to raise young horses for racing and is intended for taxpayers who own them.

Eligible expenditures, which must be incurred after June 29, 2000 but before January 1, 2004, are limited to an annual amount of $12 000 per eligible animal. The rate of the tax credit, applicable to eligible expenditures is 30%, for a maximum tax credit of $3 600 per eligible animal per year.

- **Refundable tax credit for shipbuilding or conversion (1996 and 1997)**

On May 9, 1996, a refundable tax credit was introduced for certain construction expenses incurred by a corporation with an establishment in Québec and which carries on a shipbuilding business in Québec.

The rate of the tax credit is 50% and applies mainly to wages incurred with individuals employed by the corporation who work directly on the construction of an eligible ship. The ministère des Finances, de l’Économie et de la Recherche must have issued an eligibility certificate for the construction project for such ship. In this regard, the ship must have a gross tonnage of at least fifty tons. Furthermore, the amount of the tax credit may not exceed 20% of the cost of construction of the ship.

In 1997, another component was added to this tax credit, to admit the first three units of a series of ships built from similar plans and specifications as those of a prototype ship, but at declining rates of tax credit. In addition, a tax credit was also introduced for the conversion of ships, whose rate is also 50% Eligible conversion expenditures include the same items as those accepted for the purposes of the tax credit for shipbuilding.

These measures are designed to encourage shipbuilding and conversion in Québec.

- **Refundable tax credit for job creation in the clothing and footwear industry (1998)**

To stimulate the competitiveness of Québec companies in the clothing and footwear industry and encourage them not to make use of unreported work, a temporary refundable tax credit was introduced for calendar years 1998 to 2001, for the increase in payroll attributable to the production employees of an employer in this industry. The rate of the tax credit, for a calendar year, was 20% of the amount of such increase in payroll. The tax credit was geared both to corporations and individuals.

- **Refundable tax credit relating to the training period of young specialized employees of IFCs (1998)**

The refundable tax credit relating to the apprenticeship period of young specialized employees of an IFC is granted to operators of an IFC that employs eligible specialized employees, regarding the salaries paid to such employees for a maximum of three years. Briefly, an eligible specialized employee is an employee who, at the time an eligibility certificate is first issued in his regard by the Minister of Finance, the Economy and Research, earned a diploma in a discipline relevant to the field of international financial transactions no more than four years previously, and at least 75% of whose duties are related to carrying out qualified international financial transactions. This tax credit applies in relation to employees regarding whom the operator of the IFC holds an eligibility certificate issued by the Minister of Finance, the Economy and Research before July 1, 2003.

The amount of the tax credit is equivalent to 40% of the eligible salary paid to the eligible specialized employee. Furthermore, on March 29, 2001, the ceiling applicable to eligible salary was raised from \$62 500 to \$75 000, calculated on an annual basis, so that the maximum tax credit, for an eligible specialized employee, rose from \$25 000 to \$30 000 on an annual basis.

This tax credit is designed to promote the development of a new generation of skilled professionals in the field of international transactions, and to compensate part of the costs associated with the period of apprenticeship of young employees.

- **Refundable tax credit for IFC canvassing expenses (1998)**

The refundable tax credit for IFC canvassing expenses covered reasonable expenditures relating to marketing activities carried out with persons who are not residents of Canada and which enabled the operator of an IFC to bring new qualified international financial transactions to Montréal.

Briefly, the amount of the tax credit, for a taxation year, was equivalent to 50% of the amount of the eligible canvassing expenses incurred by the operator of the IFC during such year and the two preceding years, but prior to January 1, 2002. However, the amount of the tax credit was limited to 25% of the eligible fees the operator of the IFC earned, for the year, from carrying out such new international financial transactions. In addition, the amount of the tax credit, for a taxation year, could not exceed $75 000 on an annual basis.

The refundable tax credit for IFC canvassing expenses was designed to help companies develop new markets and recognize the contribution of marketing to the development of international financial transactions in Montréal.

- **Refundable tax credit for canvassing expenses for a foreign investment fund (2000)**

On March 14, 2000, the refundable tax credit for IFC canvassing expenses was improved with the addition of a second component covering canvassing expenses incurred by the operator of an IFC with a promoter of foreign investment funds, for the purpose of obtaining a foreign investment fund management mandate, so as to bring new qualified international financial transactions to Montréal.

Briefly, the rules applicable to this second component were the same as those applicable to the first. More specifically, the amount of the tax credit, for a taxation year, was equivalent to 50% of the amount of the eligible canvassing expenses incurred by the operator of the IFC during such year and the two preceding years, but prior to January 1, 2002. In addition, the amount of the tax credit was limited to 25% of the eligible fees the operator of the IFC earned, for the year, from carrying out new international financial transactions.

However, special rules limited the overall annual maximum amount that an operator of CFI could obtain under this second component to $750 000, with an annual limit of $150 000 applicable individually regarding each foreign investment fund. In addition, a cumulative cap of $300 000 applicable individually for each foreign investment fund was also stipulated.

The refundable tax credit for canvassing expenses for a foreign investment fund was designed to help companies develop new markets by obtaining obtain foreign investment fund management mandates.

- **Refundable tax credit for the creation of investment funds (1998)**

Tax benefits were implemented to support the development of new investment funds administered and managed in Québec. The tax benefits were granted to eligible corporations that created such funds after December 31, 1997 and before April 1, 2001.

This tax assistance consisted of a refundable tax credit for eligible start-up expenditures incurred in relation to the creation of eligible investment funds, as well as a tax exemption regarding the income earned from the administration and management of such funds.[12]

More specifically, a corporation could claim a refundable tax credit equal to 50% of the eligible start-up expenses incurred regarding such a fund, up to a maximum of $250 000. Briefly, eligible start-up expenditures covered expenditures incurred by an eligible corporation and attributable to the start-up and establishment of an investment fund, for a period of two years.

However, a change introduced on March 14, 2000 placed a limit of $1 million on the amount of the refundable tax credit for the creation of investment funds that an eligible corporation, as well as eligible corporations with which it was associated, could claim for one taxation year.

By stimulating the creation and management of investment funds in Québec, this measure was designed to develop Québec expertise in portfolio management and development of financial products.

- **Refundable tax credit for communications between corporations and investors (2000)**

A corporation that has a class of its shares listed on an exchange and which wishes to obtain financing by means of a public offering or to disclose the details of a major development that may affect the value of its stock, must be in a position to communicate effectively with financial market professionals and investors. One of the preferred methods used by corporations for such purposes involves organizing a promotional tour or road show affording direct and preferential contact between the corporation and investors.

To encourage Québec corporations to participate more actively in this type of activity, tax assistance is granted to public corporations that, briefly, have a market capitalization of or whose assets are valued at less than $1 billion, and, essentially, more than 50% of salaries paid to its employees are paid to employees in Québec. In general, this tax assistance covers expenditures incurred by an eligible corporation in the course of road shows staged for financial market professionals and investors.

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12 This tax expenditure is described in the sub-section "Reduced tax rates and exemptions".

More particularly, such tax assistance consists of a refundable tax credit and is granted, for a taxation year, to an eligible corporation that, during such year, incurs eligible communications expenditures, such as travel and lodging expenses, expenses for the rental of rooms and equipment, for the preparation of material or advertising, as well as consultants' fees, in relation to an eligible road show. The maximum amount of the tax credit an eligible corporation may receive, for a taxation year, is limited to $40 000, calculated on an annual basis.

This tax credit is designed to encourage Québec corporations to participate in "road shows" so as to obtain better valuation of their listed securities. This measure applies to eligible communications expenditures incurred after June 29, 2000 and before July 1, 2003.

- **Refundable tax credit for fund managers (1998)**

On March 31, 1998, a refundable tax credit relating to the apprenticeship period of fund managers was introduced. This tax credit is equal to 40% of the salary paid to the eligible fund manager, for a maximum of three years, and can reach $30 000 per year.

This measure applies regarding the eligible salary paid by an eligible portfolio management company after March 31, 1998 to eligible fund managers for whom an eligibility certificate is issued after such date and before July 1, 2003.

Briefly, an eligible fund manager is a fund manager who, when a certificate of eligibility is first issued in his regard by the Minister of Finance, the Economy and Research, earned a diploma in a relevant discipline no more than four years previously.

This measure is designed to encourage portfolio management activities in Quebec and the hiring of young graduates.

- **Tax credit for hiring junior financial analysts specializing in the securities of Québec corporations (2000)**

Briefly, a corporation that carries on a business as an unrestricted practice investment adviser or dealer registered with the Commission des valeurs mobilières du Québec (CVMQ) and which, during a taxation year, employs an eligible junior financial analyst, may claim a tax credit regarding the eligible salary paid to such financial analyst. This tax credit is equal to 40% of the salary paid to an eligible junior financial analyst and can reach $30 000 per year for a maximum of three years.

Generally, an eligible junior financial analyst is an individual who devotes more than 75% of his work time to financial analysis activities, mainly covering securities of Québec corporations, and who, when an eligibility certificate is first issued in his regard by the Minister of Finance, the Economy and Research, earned a diploma in a discipline relevant to securities analysis no more than four years previously.

The tax credit applies regarding the eligible salary paid by an eligible corporation after June 29, 2000, to eligible junior financial analysts for whom an eligibility certificate is issued by the Minister of Finance, the Economy and Research after this day and before July 1, 2003.

By encouraging broader coverage of Québec corporations by financial analysts, this measure is designed to contribute to better valuation of the listed securities of such corporation, while favouring the training and development of young financial analysts in Québec.

- **Tax credit for hiring junior financial analysts specializing in financial derivatives (2001)**

Briefly, a corporation that, during a taxation year, employs a junior financial analyst specializing in financial derivatives (FD), can claim a tax credit regarding the eligible salary paid to such eligible financial analyst. This tax credit is equal to 40% of the salary paid to an eligible junior financial analyst and can reach $30 000 per year for a maximum of three years.

Generally, an eligible junior financial analyst is an individual who devotes more than 75% of his working time to financial analysis activities concerning FDs or to investment advice or investment dealer activities specializing in FDs and who, when eligibility certificate is first issued in his regard by the Minister of Finance, the Economy and Research, earned a diploma in a relevant discipline no more than four years previously.

This tax credit applies regarding the eligible salary paid by an eligible corporation after April 9, 2001, to eligible junior financial analysts for whom an eligibility certificate is issued by the Minister of Finance, the Economy and Research after this day and before July 1, 2003.

This measure aims at encouraging the development, in Québec, of advanced expertise in the field of FDs, while favoring the hiring, training and development of young financial analysts specialized in FDs.

- **Credit fostering the participation of investment dealers on the Nasdaq stock market (2000)**

Briefly, a corporation registered with the Commission des valeurs mobilières du Québec (CVMQ) as an investment dealer, which is also a member corporation of the American National Association of Securities Dealers (NASD) authorized to deal in securities listed on the Nasdaq stock market as an orders entry broker or market maker broker, can receive tax assistance concerning the costs relating to its establishment on the Nasdaq Canada stock market.

Briefly, this tax assistance consists of a refundable tax credit and has four components, the first covering administrative costs, the second covering the acquisition and leasing of technological equipment, the third covering the hiring and training of personnel and lastly, the fourth covering the costs relating to the installation and maintenance of a transaction management system.

The tax credit an eligible corporation may claim, for a taxation year, is equal to 50% of the amount of eligible expenditures it incurred during such year and before January 1, 2004, under one or more of the components of the tax credit. However, the maximum cumulative amount of tax credit an eligible corporation may receive is limited to $25 000 for the first component, $100 000 for the second, $50 000 for the third, and $300 000 for the fourth.

This measure is intended to foster the participation of Québec investment dealers on the Nasdaq Canada stock exchange by reducing the initial cost of their establishment on this new Québec stock exchange.

- **Refundable tax credit for railway companies (1998)**

The refundable tax credit for railway companies covers the property taxes relating to railroad rights-of-way, i.e. the base of the railroad, including ditches and embankments, paid during the year by the operator of a railway business in Québec and who maintains an establishment in Québec.

The tax credit is equal to 75% of the amount of eligible property taxes paid to a municipality under the *Act respecting Municipal Taxation* or to a school board under the *Education Act*.

The refundable tax credit for railway companies is designed to improve the competitive position of railway companies, without affecting the finances of local governments.

- **Refundable tax credit for the production of multimedia titles (1996)**

This refundable tax credit depends on the eligible labour expenditures incurred in the production of eligible multimedia titles.

The basic rate of the tax credit is 35%, and rises to 40% when the title is produced to order and is intended for commercialization. This 40% rate can be increased to 50% if the title is available in French.

However, regarding a title for which the main production work began before December 20, 2002, the basic rate is increased to 40% when the title is intended for mass market commercialization.

This tax credit has two components, a general component and a component applicable to corporations whose activities consist almost exclusively in producing multimedia titles in an establishment in Québec.

Investissement Québec is responsible for issuing certificates for multimedia titles eligible for the general component, as well as certificates relative to corporations eligible for the specialized component.

The purpose of this measure is to support the production of multimedia titles and to enable Québec companies operating in this sector to compete more effectively against international companies in this field.

- **Refundable tax credits for corporations carrying out an innovative project in certain designated sites (1997)**

A corporation that carries out an innovative project in certain designated sites, namely a CDTI, a CNE or a biotechnology development centre, can claim a number of tax benefits.

More specifically, such a corporation can claim, in addition to a five-year tax holiday, a refundable tax credit for wages paid to eligible employees; thus a refundable tax credit for the acquisition or lease of eligible specialized equipment.

Such a corporation can generally claim a refundable tax credit regarding the salaries paid to eligible employees for a ten-year period beginning not earlier than March 26, 1997 and ending no later than December 31, 2013. However, in the case of innovative projects that begin to be carried out after December 31, 2010, the corporation carrying out such an innovative project may claim a refundable tax credit for wages paid to eligible employees for a period of three years.

The amount of the tax credit on wages is equal, for a taxation year, to 40% of the wages incurred during such year and paid to eligible employees, up to a maximum tax credit of $15 000 per employee, on an annual basis.

The amount of the tax credit was increased for one year, namely regarding wages paid from June 16, 1998 to June 15, 1999. The rate of the tax credit was 60% and the maximum tax credit was $25 000 per employee, on an annual basis.

Furthermore, the amount of the tax credit for eligible specialized equipment is equal to 40% of the capital cost of the eligible specialized equipment acquired during the first three years of the tax holiday of the corporation and to 40% of rent paid, for eligible specialized equipment, during the five-year tax holiday.

In addition, a corporation that carries out an innovative project in the biotechnology sector in a biotechnology development centre can claim a refundable tax credit of 40% of the amount of eligible rental expenses relating to the short-term rental, during the five-year tax holiday it enjoys, of eligible specialized facilities.

These fiscal measures are under the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax credits.

- **Refundable tax credit for corporations established in the Cité du multimédia (1998)**

The Cité du multimédia, located near Montréal's Old Port, was created on June 15, 1998. Briefly, specified corporations that move into the Cité du multimédia can claim, for a ten-year period beginning no earlier than June 16, 1998 and ending no later than December 31, 2013, a refundable tax credit for specified wages they incur and pay to specified employees to carry out specified activities in designated buildings in Montréal.

The amount of the refundable tax credit on wages is equal, for a taxation year, to 40% of the specified wages incurred during such year and paid to specified employees, up to a maximum tax credit maximal of $15 000 per employee, on an annual basis.

For the period from June 16, 1998 to June 15, 1999, the rate of the tax credit was 60% and the maximum tax credit was $25 000 per employee, on an annual basis.

Furthermore, since March 14, 2000, a tax holiday similar to the one available to a foreign specialist working for a corporation that carries out an innovative project in certain designated sites is available for a foreign specialist working for a corporation carrying on a business in the Cité du multimédia. Accordingly, such a specialist may benefit, for a period of five years, from an exemption from tax on his income from such employment.

These fiscal measures are under the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

- **Refundable tax credit for corporations established in the Centre national des nouvelles technologies de Québec (1999)**

The Centre national des nouvelles technologies de Québec (CNNTQ), located in downtown Québec City, was created in the March 9, 1999 Budget Speech. Briefly, specified corporations that move into designated premises of the CNNTQ can claim, for a ten-year period beginning no earlier than March 10, 1999 and ending no later than December 31, 2013, a refundable tax credit for specified wages they incur and pay to specified employees to carry out specified activities in designated premises of the CNNTQ.

The amount of the refundable tax credit on wages is equal, for a taxation year, to 40% of the specified wages incurred during such year and paid to specified employees, up to a maximum tax credit maximal of $15 000 per employee, on an annual basis.

Furthermore, since March 14, 2000, a tax holiday similar to the one available to a foreign specialist working for a corporation that carries out an innovative project in certain designated sites is available for a foreign specialist working for a corporation carrying on a business in the CNNTQ. Accordingly, such a specialist may benefit, for a period of five years, from an exemption from tax on his income from such employment.

These measures are under the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim the these tax benefits.

- **Refundable tax credit for corporations established in a new economy centre (1999)**

New economy centres (CNE) were created in the March 9, 1999 Budget Speech.

Corporations that carry out certain activities in a designated building of a CNE may claim either the tax assistance specifically applicable to CNEs, or that applicable to corporations that carry out an innovative project in certain designated sites. Corporations that do not carry out an innovative project can, for a ten-year period beginning no earlier than March 10, 1999 and ending no later than December 31, 2013, claim a refundable tax credit for specified wages they incur and pay to specified employees to carry out specified activities in designated building of a CNE. The rate of this tax credit is 40%, for a maximum tax credit of $15 000 per specified employee, on an annual basis.

Furthermore, since March 14, 2000, a tax holiday similar to the one available to a foreign specialist working for a corporation that carries out an innovative project in certain designated sites is available for a foreign specialist working for a corporation carrying on a business in a designated building of a CNE. Accordingly, such a specialist may benefit, for a period of five years, from an exemption from tax on his income from such employment.

These measures are under the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim the these tax benefits.

- **Refundable tax credit for corporations located in E-Commerce Place (2000)**

E-Commerce Place, located in downtown Montréal, was created on May 11, 2000. Briefly, eligible corporations that move into E-Commerce Place can receive, for a ten-year period beginning no earlier than May 12, 2000 and ending no later than December 31, 2013, tax assistance with respect to eligible salaries they incur and pay to eligible employees to carry out eligible activities.

The rate of this tax assistance is generally 35% but may be reduced beginning in the sixth year of operation of an eligible corporation in E-Commerce Place, if the eligible corporation has not created a minimum number of jobs in Québec.

Initially, this tax assistance consisted of a refundable tax credit. However, in the Supplement to the Government's Budgetary Policy of March 19, 2002, an election was introduced allowing an eligible corporation to elect to claim either the refundable tax credit or a refundable credit of employer HSF contributions. The election is possible regarding taxation years of an eligible corporation ending after March 19, 2002.

Furthermore, the amount of tax assistance an eligible corporation may receive, for a taxation year, regarding the eligible salary paid to an eligible employee for such year is limited, however, to $12 500 per eligible employee. Accordingly, for the purposes of this tax assistance, the eligible salary of an eligible employee is limited to $37 417, calculated on an annual basis.

In addition, note that for eligible salaries incurred by an eligible corporation before January 1, 2001, i.e. for a period regarding which the election indicated above does not apply, the rate of this tax credit was 25%. In addition, the amount of the tax credit an eligible corporation could claim, for a taxation year, regarding the eligible salary paid to an eligible employee for such year, was limited to $10 000 per eligible employee, while the eligible salary or an eligible employee was limited to $40 000, calculated on an annual basis.

This tax assistance is designed to support job creation in the field of e-commerce operations.

- **Refundable tax credit for the Technopôle Angus (2000)**

This refundable tax credit applies regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating either in the field of manufacturing or processing of goods, or in the environmental field. The tax assistance is granted to businesses that move into the site of the former Angus shops, within the territory of the City of Montréal.

The rate of this refundable tax credit is 40%. In general, this rate applies to the amount by which the wages paid by the eligible corporation to its eligible employees, for a given calendar year, exceeds the wages paid to eligible employees during the preceding calendar year. This measure applies for calendar years 2000 to 2006.

The purpose of this measure is to provide compensation for the costs relating to the apprenticeship period of new employees of companies located in the Technopôle Angus.

- **Refundable tax credit to encourage Québec SMEs to adopt e-commerce solutions (2000)**

On March 14, 2000, the government introduced a refundable tax credit to encourage Québec SMEs to adopt e-commerce solutions.

Briefly, an eligible corporation can claim a refundable tax credit equal to 40% of eligible expenditures it incurs regarding an eligible e-commerce solution. However, this tax credit is limited, for an eligible corporation, to $40 000, for the entire period, described below, regarding which eligible expenditures can be incurred regarding an eligible e-commerce solution.

In this regard, the expenditures relating to the implementation of an eligible e-commerce solution must, subject to certain transition rules, be incurred by a corporation, or by a partnership as the case may be, after March 14, 2000 and before April 1, 2002.

Furthermore, an e-commerce solution must satisfy a set of conditions, by March 31, 2003 at the latest, to qualify as an eligible e-commerce solution.

- **Refundable tax credit for biotechnology development in certain designated sites (2001[13] and 2002)**

The refundable tax credit for biotechnology development was introduced in the March 19, 2002 Supplement to the Government's Budgetary Policy.

[13] This measure replaces the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain that was introduced in the March 29, 2001 Budget Speech.

This tax credit, whose rate is 40%, is granted regarding the increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the field of biotechnology, for three consecutive calendar years. The tax assistance is granted to corporations that move into a designated site, either the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain, the Zone de développement des biotechnologies de Sherbrooke or the Cité de la biotechnologie agroalimentaire, vétérinaire et agroenvironnementale de Saint-Hyacinthe. To receive this tax credit, an eligible corporation must begin to carry on a certified business in one of these sites no later than during calendar year 2006.

In general, to receive this tax credit, a corporation must carry on, in a designated site, a business whose activities consist in manufacturing, in whole or in part, products relating to the biotechnology and human health sector, in particular drugs, vaccines, medical appliances and other derived products.

This measure is designed to stimulate the development of the biotechnology sector while encouraging companies to locate and expand in the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain, the Zone de développement des biotechnologies de Sherbrooke and the Cité de la biotechnologie agroalimentaire, vétérinaire et agroenvironnementale de Saint-Hyacinthe.

- **Refundable tax credit for e-business activities carried out in certain designated sites (2001)**

The refundable tax credit for e-business activities carried out in certain designated sites was introduced on November 1, 2001.

This refundable tax credit, whose rate is 35%, is granted with respect to the increase in payroll attributable to eligible employees of an eligible corporation that moves into designated premises located either in the Montréal E-Commerce Zone or in the Centre national des nouvelles technologies de Québec (CNNTQ), for five consecutive calendar years. To receive this tax credit for five calendar years, an eligible corporation must begin to carry on a certified business no later than during calendar year 2009.

In general, to receive this tax credit, a corporation must carry on, in a designated site, a business whose activities concern the development and supply of products and services relating to e-business, the operation of e-business solutions or a customer contact centre.

This measure is designed to stimulate the development of certain activities relating to information technology and encourage companies to locate and expand in the Montréal and Québec City regions.

- **Refundable tax credit for nutraceuticals and functional foods (2002)**

The refundable tax credit for nutraceuticals and functional foods was introduced in the Supplement to the Government's Budgetary Policy of March 19, 2002.

This tax credit, whose rate is 40%, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in the functional foods and nutraceuticals sector in the Québec City region, for three consecutive calendar years. To receive this tax credit, an eligible corporation must begin to carry on a certified business no later than during calendar year 2006.

In general, to receive this tax credit, a corporation must carry on, in the Québec City region, a business whose activities consist in manufacturing, in whole or in part, functional foods and nutraceuticals.

This measure is designed to stimulate the development of the functional foods and nutraceuticals sector and encourage companies to locate and expand in the Québec City region.

- **Refundable tax credit for innovation centres (2002)**

The refundable tax credit for innovation centres was introduced in the March 19, 2002 Supplement to the Government's Budgetary Policy.

This tax credit, whose rate is 40%, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation that moves into a designated site, namely the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec, for five consecutive calendar years. To receive this tax credit, an eligible corporation must begin to carry on a certified business no later than during calendar year 2006.

In general, to receive this tax credit, a corporation must carry on, in a designated site, a business whose activities are related to information technology or certain general application technologies.

This measure is intended to provide further support for innovation in the most promising sectors of the knowledge-based economy and encourage companies to locate and expand in the Montréal and Québec City regions.

- **Refundable tax credit for the use of less-polluting dry-cleaning technology (1997)**

A refundable tax credit, whose rate depended on the gross income of the dry cleaning business and the type of equipment acquired, was introduced in 1997. For equipment that did not utilize perchloroethylene, the rates of the tax credit were 20% or 15%, depending on whether or not the gross income of the business was less than $250 000. For equipment that used less perchloroethylene, the rates of the tax credit were 15% or 10%, depending on whether or not the gross income of the business was less than $250 000.

However, regarding equipment acquired after March 25, 1997 and before December 19, 1997, the rates of the tax credit were double those described above, i.e. 40% and 30% in the case of equipment that did not utilize perchloroethylene, or 30% and 20% for equipment that used less perchloroethylene.

This tax credit applied to acquisition expenses incurred before January 1, 2000.

This tax credit was designed to support and accelerate the modernization of dry cleaning businesses and assist them to adopt less polluting technology.

- **Refundable tax credit relative to the declaration of tips (1997)**

Various measures to improve and restore order to the situation regarding the declaration of tips in the restaurant and hotel sector were introduced in 1997.

These measures require employees who receive tips while carrying out their duties to declare the amount in writing to their employer. In addition, when the amount so declared to the employer, for a pay period, is less than 8% of the employee’s sales subject to tips, for such period, an amount equal to the difference between tips declared to the employer and the amount representing 8% of the employee’s sales subject to tips is generally attributed to the employee as tips.

Furthermore, employers are required to pay various charges regarding these tips, but can claim a refundable tax credit for them.

Essentially, the tax credit relative to the declaration of tips corresponds to the portion of employer contributions which is attributable to tips, to the portion of the annual vacation benefit of an employee which is attributable to tips, as well as to the employer contributions payable in relation to such portion of the benefits.

This tax credit seeks to compensate the increase in charges payable by an employer because of the implementation of measures regarding the declaration of tips and to support the hotel and restaurant industry.

- **Refundable tax credit on the wages of eligible employees relating to the Montréal Foreign Trade Zone at Mirabel (1999)**

A corporation that carries on an eligible business within the Montréal Foreign Trade Zone at Mirabel can claim a refundable tax credit for wages paid to eligible employees of such business. Eligible employees are those at least 75% of whose duties consist of work relating to an activity of the eligible business and whose employment contract stipulates at least 26 hours of work per week for a minimum of 40 weeks.

This tax credit corresponds to 40% of wages incurred for an eligible employee before January 1, 2002. However, the tax credit will be capped, for such period, at $15 000 per employee, on an annual basis. Concerning the wages incurred for an eligible employee during the period between December 31, 2001 and January 1, 2005, this tax credit will correspond to 30% of such wages. However, the tax credit will be capped, for such period, at $12 000 per employee, on an annual basis. Lastly, concerning the wages incurred for an eligible employee during the period between December 31, 2004 and January 1, 2014, this tax credit will correspond to 20% of such wages. However, the tax credit will be capped, for such period, at $8 000 per employee, on an annual basis.

- **Refundable tax credit for an eligible customs brokerage contract relating to the Montréal Foreign Trade Zone at Mirabel (1999)**

A corporation which carries on an eligible business within the Montréal Foreign Trade Zone at Mirabel can claim a refundable tax credit for fees incurred under an eligible customs brokerage contract, i.e. a contract concluded with a customs broker which is at arm’s length with the corporation, concerning services supplied to the corporation, before January 1, 2014, in the course of the activities of the eligible business.

This tax credit corresponds to 40% of the fees incurred, prior to January 1, 2002, for an eligible customs brokerage contract. However, the tax credit is capped, for such period, at $30 000, on an annual basis. Concerning the fees incurred for an eligible customs brokerage contract during the period from December 31, 2001 and January 1, 2005, the tax credit corresponds to 30% of such fees. However, the tax credit is capped, for such period, at $24 000, on an annual basis. Lastly, concerning the fees incurred for an eligible customs brokerage contract during the period from December 31, 2004 and January 1, 2014, the tax credit corresponds to 20% of such fees. However, the tax credit is capped, for such period, at $16 000, on an annual basis.

- **Refundable tax credit for the acquisition or lease of eligible equipment relating to the Montréal Foreign Trade Zone at Mirabel (1999)**

A corporation that carries on an eligible business within the Montréal Foreign Trade Zone at Mirabel can claim a refundable tax credit for eligible equipment used in the course of carrying on such business. The expression eligible equipment essentially means equipment which, prior to its acquisition or lease by the corporation, was not used for any purpose nor acquired to be used or leased for any purpose whatsoever, and which must be used wholly or almost wholly in the Mirabel Zone to earn income from an eligible business.

This tax credit corresponds to 25% of the expenses incurred by the corporation to acquire, before January 1, 2014, such eligible equipment. Concerning the lease of eligible equipment, the tax credit corresponds to 25% of the rent paid by the corporation during the eligible lease period designated by the Minister of Finance, the Economy and Research.

- **Refundable tax credit for the construction of strategic buildings in the Montréal Foreign Trade Zone at Mirabel (2000)**

A corporation that carries on a business and has an establishment in Québec can claim a refundable tax credit for the construction of strategic buildings in the Montréal Foreign Trade Zone at Mirabel. In this regard, the expression strategic building means essentially a building or part of a building which is built inside this zone, no part of which is used or is intended to be used for residential purposes and regarding which the corporation holds an eligibility certificate issued by the Minister of Finance, the Economy and Research.

Briefly, this tax credit corresponds to 25% of construction costs incurred by the corporation for a strategic building.

- **Refundable tax credit for the Cité de l’optique (1999)**

This refundable tax credit applies regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating in the field of optics, photonics or lasers in the Québec City region.

The rate of this tax credit is 40%. In general, this rate applies to the amount by which the salaries paid by the eligible corporation to its eligible employees, for a given calendar year, exceeds the salaries paid to eligible employees during the preceding calendar year.

This measure, which applies for calendar years 1999 to 2006, is designed to provide compensation for the costs relating to the apprenticeship period of new employees of a corporation operating in the field of optics, photonics or lasers in the Québec City region.

- **Refundable tax credit for the Vallée de l'aluminium (2000)**

The refundable tax credit for the Vallée de l'aluminium was introduced in 2000.

Briefly, this tax credit, which has a 40% rate, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in the administrative region of Saguenay-Lac-Saint-Jean, for five consecutive calendar years. However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in this region no later than during calendar year 2004.

This measure is designed to stimulate, in this region, the manufacturing of finished or semi-finished products, from aluminum that has already undergone primary processing, the manufacturing of specialized equipment for aluminum production or aluminum processing businesses, and the development and recycling of waste and residue resulting from the processing of aluminum.

- **Refundable tax credit for Gaspésie and certain maritime regions of Québec (2000)**

The refundable tax credit for Gaspésie and certain maritime regions of Québec was introduced in 2000.

This tax credit, whose rate is 40%, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in certain maritime regions of Québec, namely Gaspésie-Îles-de-la-Madeleine, Côte-Nord, Bas-Saint-Laurent and the Matane RCM, for five consecutive calendar years. To receive this tax credit, an eligible corporation must begin to carry on a certified business in one of these regions no later than during calendar year 2004.

In general, this refundable tax credit is allowed for specific activities carried out in sectors involving the development of marine or wind-power resources, to offset the costs associated with creating or expanding a certified business in these sectors.

- **Refundable tax credit for processing activities in resource regions (2001)**

The refundable tax credit for processing activities in the resource regions was introduced on March 29, 2001.

This refundable tax credit, whose rate is 40%, is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in one of Québec's resource regions, for five consecutive calendar years. To receive this tax credit, an eligible corporation must begin carrying on a certified business in a resource region no later than during calendar year 2004.

In general, to receive this tax credit, a corporation must carry on, in a resource region, a business whose activities concern, in particular, the secondary or tertiary processing of wood, metals and non-metallic minerals, food processing, production of non-conventional energy or aquaculture.

This measure is intended to foster the economic diversification of the resource regions and stimulate the development and expansion of businesses. Resource regions consist of the administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine and the Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac RCMs.

- **Tax credit relating to resources (2001)**

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit.

Accordingly, an eligible corporation that incurs eligible expenses can claim a tax credit of up to 45% of the amount of such eligible expenses.

Briefly, eligible expenses are all the expenses incurred by a corporation and attributable either to exploration expenses that, under the flow-through share system, allow an individual to claim a deduction of at least 125%, or expenses incurred in Québec and relating to renewable energy and energy conservation allowing an individual to claim a deduction of 100%.

The basic rate of the tax credit a corporation may claim is 20% This rate is raised to 40% regarding eligible expenses incurred by a corporation that does not operate any mineral resource or oil or gas well, and which is not related to a corporation that operates a mineral resource or oil or gas well. In addition, the rates of 20% and 40% are raised to 25% and to 45%, respectively, regarding eligible expenses incurred by an eligible corporation in Québec's Near North or Far North. In the specific case of expenses incurred in Québec and relating to renewable energy and to energy conservation, a single rate of 40% applies.

In addition, only those eligible expenses that have not been foregone for the purposes of the *Taxation Act* under the flow-through share system enable an eligible corporation to benefit from this new assistance mechanism. Furthermore, a transition period is stipulated as part of the implementation of the new tax credit. Accordingly, a corporation may continue to transfer CEE, CDE and COGPE[14] to individuals by foregoing them and issuing flow-through shares since the tax benefits associated with flow-through shares are maintained regarding share issued no later than December 31, 2003.

[14] These acronyms are defined in the following sub-section "Expenses relating to resources (accelerated amortization)".

This refundable tax credit applies, subject to expenses foregone in favour of an investor under the flow-through share system, regarding eligible expenses incurred after March 29, 2001.

Furthermore, since November 1, 2001, the scope of this tax credit has been broadened to include another type of natural resource, namely cut stone. In the case of this type of natural resource, a single rate of 20% is applicable. This improvement applies regarding eligible expenses incurred after November 1, 2001.

Lastly, a temporary improvement to this tax credit was announced on August 20, 2002. This improvement was made by adding, until 2007 inclusive, a non-refundable portion, bringing the rate of the tax credit to 60% in the case of eligible expenses incurred regarding mineral resources. This temporary improvement applies regarding eligible expenses incurred after August 20, 2002 and before January 1, 2008.

– **Deferrals**

- **Expenses relating to resources (accelerated amortization)**

Canadian exploration expenses (CEE), Canadian development expenses (CDE), Canadian oil and gas property expenses (COGPE), Canadian exploration and development expenses (CEDE) and foreign exploration and development expenses (FEDE) enable the taxpayer to amortize his exploration and development expenses for quickly than accounting rules allow. Only CEE and CDE are dealt with below, because the amounts at issue regarding the other expenses are relatively small. In addition, caution is called for in estimating the total value of these tax expenditures, since mining, oil and gas companies can transfer CEE, CDE and COGPE to individuals by foregoing them and issuing flow-through shares. In Québec, the additional deductions of 25% and 50% for exploration expenses incurred in Québec encourage such transfers by junior exploration companies.

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, there is a transition period for this replacement. Accordingly, a corporation will no longer be able to transfer CEE, CDE and COGPE to individuals by foregoing them and issuing flow-through shares since the tax benefits associated with flow-through shares will be eliminated regarding shares issued after December 31, 2003.

‣ **Accelerated amortization of Canadian exploration expenses (1974)**

Expenses incurred in prospecting, exploring or searching for minerals, oil or natural gas, or in the development of mineral resources in Canada can be deducted at a rate of 100% for income tax purposes. These expenses are entered by the taxpayer in a separate account whose balance can be deducted during a subsequent taxation year. This deduction is optional and can be used to create a business loss. These expenses can be carried forward indefinitely.

This 100% amortization is greater than what is suggested by accounting principles and results in a deferral of income tax payable. It is designed to encourage exploration for natural resources in Canada.

- **Accelerated amortization of Canadian development expenses (1974)**

In general, development expenses in the oil and gas sector in Canada are considered Canadian development expenses and are amortized at a rate of 30% of residual value. The development expenses of mining corporations already in commercial production are treated the same way. Those of new mines are treated as Canadian exploration expenses.

These expenses are entered in a separate account and the non-deducted balance of the account need not be used within a set time limit; it can be carried forward indefinitely.

Since accounting principles would suggest amortizing such expenses using the full costing method (capitalize the costs and amortize as the reserves are developed and sold), the amortization rate of 30% constitutes a benefit for corporations which incur such expenses, since exploitation generally lasts at least ten years.

- **Expenses relating to renewable energy and energy conservation in Canada (1997)**

This category of expenses was introduced to allow full deduction of certain costs associated with the development of certain projects relating to renewable energy and projects for which the equipment gives rise to an accelerated deduction. The costs of acquisition and installation of wind generators for test purposes are also deductible as expenses relating to renewable energy and energy conservation in Canada (EREECC).

EREECC can be covered by an agreement for the issue of flow-through shares. They were introduced to make the tax system fairer as it applies to the financing of renewable and non-renewable energy projects.

On March 29, 2001, the government announced the replacement of the flow-through share system with a more direct assistance mechanism, namely a refundable tax credit. However, there is a transition period for this replacement. Accordingly, a corporation will not be able to transfer EREECC to individuals by foregoing them and issuing flow-through shares since the tax benefits relating to flow-through shares will be eliminated regarding shares issued after December 31, 2003.

- **Deduction of scientific research and experimental development (R&D) capital expenditures (1972)**

In general, R&D expenditures can be deducted immediately, even though some of them may constitute capital expenditures.

In the absence of this measure regarding R&D expenditures, these amounts would have been amortized over many years (in accordance with accounting and tax rules) and not immediately deducted. In general, expenditures intended to produce income in the future are in the nature of capital expenditures and accordingly should be amortized over the entire period during which such income is earned.

This measure constitutes preferred treatment designed to encourage R&D.

- **Deductibility of land-holding expenses (1972)**

Interest expenses on a debt concerning the acquisition of land and the property taxes paid or payable on land (holding expenses) are eligible as a deduction in calculating a taxpayer's income if the land is held mainly to earn income from it or if it is used in the course of carrying on a business which does not consist in holding the land for resale or development.

However, in the case of a taxpayer who carries on a business in the normal course of which he holds land in inventory for resale or development, the expenses of holding such land are allowable as a deduction in calculating his income only up to the amount of net income earned from such land. The excess amount, if any, must be added to the cost of the land held in inventory for inclusion upon disposition of the land.

In the specific case of a corporation whose business consists mainly in renting or selling, or developing for the purpose of renting or selling immoveable property, land-holding expenses may be deducted up the amount of all the net income earned from such land and the corporation's basic deduction. Briefly, such basic deduction, for a year, corresponds to the amount that would be the interest for the year, calculated at the prescribed rate, on a loan of $1 000 000 that would not be repaid during the year. However, such basic deduction must be divided among related corporations.

The purpose of these measures is to recognize the high costs relating to holding land in inventory.

- **Rule on assets ready to be put into service (1990)**

Prior to 1990, taxpayers could claim a deduction for depreciation regarding assets which had yet to produce income (i.e. were not in service). In many cases, this led to a significant mismatch between revenues and expenditures, which gave rise to a tax deferral for taxpayers.

Since 1990, taxpayers generally can claim a deduction for depreciation, for eligible assets, only as of the time they put them into service or as of the second taxation year following the year of their acquisition, whichever occurs first.

The purpose of this measure is to have the period during which an asset can entitle a taxpayer to a deduction in calculating his income coincide with the period during which such asset is used to earn income.

- **Immediate deduction of advertising expenses (1972)**

Advertising expenses are eligible as a deduction in calculating a taxpayer's income for the year in which they are incurred, even if they can produce economic benefits in subsequent years.

The purpose of this measure is to simplify the tax system. While advertising expenses should normally be amortized over the useful life of the economic benefits they give rise to, it is difficult to estimate such period with an acceptable degree of accuracy.

- **Environmental trust (1997)**

Contributions paid by an operator to an environmental trust set up for the sole purpose of funding the reclamation of a site that is or has been used primarily for, or for any combination of, the operation of a mine, the extraction of clay, peat, sand, shale or aggregates, including dimension stone and gravel, or the deposit of waste are allowable as a deduction in calculating his income. The earnings of the trust are taxed as income of the trust. Operators are required to declare the income earned by the trust as though it had been earned by them. In addition, amounts withdrawn from such a trust by an operator are taxable, but the restoration expenses he incurs can be deducted in calculating his income.

Accordingly, the time at which the restoration expenses are deducted is brought forward. The tax expenditure, for a given year, corresponds to the relief obtained by taxpayers who can deduct contributions paid to the trust from their income. It can be positive or negative depending on the amount of contributions to and withdrawals from the trust for such year.

Lastly, subject to certain conditions, such a trust is subject to a special tax. However, this special tax is covered by a refundable tax credit granted to the beneficiaries of these trusts.

- **Holdbacks on staggered payments to contractors (1972)**

In the construction industry, contractors generally receive staggered payments as work progresses. However, a portion of these payments (generally 10 to 15%) is often held back until satisfactory completion of the work. The amounts held back do not have to be included in the contractor's income until the certified completion of the work to which the holdback applies. When a contractor himself holds back an amount owed to a sub-contractor, an amount of expense equal to that of the holdback is considered not to have been incurred by the contractor and is not deductible in calculating his income until such holdback is paid. The net effect of these two measures on the tax payable by the contractor depends on the relation between holdbacks payable and holdbacks receivable. If holdbacks receivable are greater than holdbacks payable by the contractor, there is a tax deferral. If holdbacks payable are greater than holdbacks receivable by the contractor, a portion of tax is paid in advance.

The purpose of this measure is to recognize that the amounts thus held back do not necessarily constitute income earned or an expense incurred, as the case may be, even if they refer to work already completed.

- **Accelerated depreciation, additional 20% deduction and supplementary 25% deduction (1988, 1989 and 1997)**

Taxpayers who carry on a business in Québec can claim a depreciation deduction of 100% of the capital cost of certain assets used in Québec, regardless of the half-year rule and put-in-service rules generally applicable under the tax legislation.

Briefly, the assets that allow a taxpayer to claim this deduction for accelerated depreciation are manufacturing or processing equipment, foreign ore processing equipment and universal electronic information processing equipment (computer hardware). On March 14, 2000, the deduction for accelerated depreciation was temporarily widened to optical fibre cables and coaxial cables acquired after this date and used in certain designated regions of Québec. Intangible assets, such as patents, licences, permits, know-how or trade secrets, acquired in the course of a technology transfer, also give rise to this deduction.

In addition, taxpayers who carry on their business in part in Québec and in part outside Québec can claim an additional deduction equal to 20% of the deduction for depreciation claimed for such assets for a taxation year (the rate of this additional deduction was 25% prior to March 26, 1997). The amount thus obtained, for a year, is then multiplied by the proportion, for such year, of business done outside Québec by the taxpayer to that done in Québec.

The March 25, 1997 Budget Speech introduced a supplementary deduction of 25% for depreciation as well as a holiday from the tax on capital for new investments in certain sectors (the tax holiday is described separately in the section on the tax on capital).

Taxpayers who acquire assets otherwise eligible for the accelerated depreciation deduction before April 1, 2005, can generally claim a supplementary deduction equal to 25% of the accelerated depreciation deduction claimed for a taxation year, thus bringing the total deduction to 125%. If a taxpayer does part of his business outside Québec during a taxation year, the amount of the supplementary deduction is divided by the proportion of his business done in Québec for such year, so that he benefits fully from this supplementary deduction.

These measures are designed to encourage investment in Québec. More specifically, the accelerated depreciation seeks to promote what are considered priority investments. As for the additional deduction, its purpose is to grant the same financial value for the deduction for accelerated depreciation to companies doing business in other jurisdictions where the tax treatment of such investments is less advantageous.

– **Other tax expenditures**

- **Non-taxation of investment income from life insurance policies (1972)**

The tax legislation divides life insurance policies into two categories: policies in the nature of savings and policies in the nature of protection.

Policies in the nature of savings are those where the funds invested in the policy are substantial in relation to the death benefit. Holders of such policies are subject to tax on the income accrued in the year regarding the net investment income attributable to their policies.

Holders of policies in the nature of protection, however, are not subject to taxation of the annual accrued income. The net investment income is taxed when the policy is surrendered or cancelled, for a reason other than the death of the insured person, or when paid in the form of policy dividends, provided the accumulated dividends exceed the total premiums paid under the policy.

This distinction between types of life insurance policies is intended to simplify the tax system. For administrative reasons, insurance companies are subject to tax on investment income earned annually on policies in the nature of protection, but only at the federal level at a rate of 15%.

This tax expenditure is related, for the most part, to policies in the nature of protection, mainly because of the difference between the tax rate on individuals and the federal tax on investment income.

- **Accelerated depreciation to help small businesses make their computer systems year 2000 compliant (1998)**

An accelerated depreciation deduction, of up to $50 000, was allowed to small and medium-size enterprises regarding the cost of computer hardware and software acquired after December 31, 1997 and before November 1, 1999 to replace computer equipment that is not year 2000 compliant.

This tax relief was designed to help small and medium-size enterprises deal with the year 2000 problem.

- **Non-taxation of life insurance companies on their income from foreign sources (1972)**

In general, companies with an establishment in Québec are subject to Québec tax on their income from all sources, based on the ratio between their business in Québec and their business in Québec and elsewhere (business allocation).

In the case of multinational life insurance companies, only the tax relating to their income from carrying on their life insurance business in Canada, as opposed to the tax relating to their world income, is payable in Québec in accordance with the business allocation rules.

These rules are designed to make allowance for the specific requirements regarding the life insurance industry.

- **Exemption from Québec tax of the profits of foreign air and marine transportation companies (1972)**

Provided the country of residence of a person carrying on an international marine or air transportation business offers similar treatment for persons residing in Canada, the income earned in Canada by a person not residing in Canada and earned from international transportation by ship or airplane is not subject to income tax in Québec.

This international reciprocity measure is designed to simplify the income tax rules relating to companies the nature of whose trading activities requires that they do business in many countries.

- **Federal aviation fuel excise tax rebate program (1997)**

The federal government implemented a rebate program, for calendar years 1997 to 2000 inclusive, for the excise tax on aviation fuel used by airline companies. The amount of the rebate of the tax was added to the company's income, except to the extent that its tax losses were reduced according to the terms of the program.

There was no similar measure in the Québec system. The amount added for the purpose of calculating federal income tax did not have to be included in calculating income for Québec tax purposes. The excise tax rebate obtained from the federal government did not reduce the eligible expenditure deduction nor did it constitute a taxable amount for Québec tax purposes.

This measure enabled airline companies active in Canada to obtain a refund of the excise tax, in return for foregoing their tax losses ($10 of tax losses for $1 of rebate).

- **Tax assistance for the capitalization of the Réseau d'investissement social du Québec (1997)**

The main objectives of the Réseau d'investissement social du Québec are to contribute to the capitalization of social enterprises in Québec and provide management support for them.

To assist with its capitalization, contributions paid by a corporation entitle it to an additional deduction, in calculating its income for a taxation year, equal to 50% of the amount paid otherwise eligible as a deduction.

– **Tax measures shown for information purposes**

- **Tax depreciation (extra amount compared with accounting depreciation) (1972)**

A taxpayer who carries on a business or earns income from property (rent, for instance) can deduct a portion of the cost of certain assets used for this purpose in calculating his income.

This deduction, commonly called "deduction for depreciation", can in some cases exceed the economic depreciation of the asset. Accordingly, a deferral of tax may result when the tax deductions during the initial years of the useful life of the asset exceed the real economic depreciation of such asset.

This measure, besides recognizing that the assets used to earn income depreciate, is designed to make matters simpler for taxpayers and the tax authorities regarding the determination of the amount to be considered for this purpose in calculating income.

- **Deduction of rebates of savings and credit unions and cooperatives (1972)**

Rebates (distribution of part of the excess of revenue over expenses) paid by a savings and credit union or by a cooperative to its members are deductible in calculating its business income.

Rebates are similar to a refund of over-charges depending on the quantity of purchases made. In this case, they would not be considered a tax expenditure. Rebates can also be considered a distribution of earnings to members, in which case they should not be deductible and accordingly would constitute a tax expenditure.

It should be noted that a taxpayer who receives rebates in relation to goods or services whose cost he can deduct in calculating his income from a business or property, must include their amount in his income.

- **Deferral of taxation of an eligible rebate (2002)**

Since February 21, 2002, a taxpayer who is member of an eligible cooperative can deduct, in calculating his taxable income, the amount of an eligible rebate attributed to him consisting of a preferred unit of such cooperative. Such a deduction enables a member of an eligible cooperative to defer taxation on the value of a rebate thus attributed to him. Upon the subsequent disposition of a preferred unit regarding which a deduction for eligible rebate was granted, the member must generally include, in calculating his taxable income, the amount of the deduction for rebate he claimed in relation to the unit disposed of.

For the purposes of this measure, an eligible cooperative means, in particular, a cooperative whose capitalization rate, at the end of its fiscal year ending before the taxation year in which an eligible rebate was attributed, is no greater than 50%.

This deduction applies in regard to an eligible rebate received after February 21, 2002 but no later than December 31, 2012.

This measure is intended to facilitate the capitalization of Québec cooperatives by encouraging their members to reinvest in them.

- **Deferral of capital gains through various rollover provisions (1972)**

Taxation of capital gains is deferred by provisions which allow taxpayers to avoid having to report accrued gains for tax purposes through various rollover provisions. Here are some examples:

- transfer of property to a corporation or to a partnership in consideration for shares of the corporation or an interest in the partnership;
- merger of taxable Canadian corporations;
- winding-up of a subsidiary which is absorbed by its parent company;
- exchange of an identical number of shares.

The purpose of these provisions is to allow some flexibility for taxpayers who decide to reorganize their affairs and to avoid having taxpayers being required to immediately bear a tax burden simply because such a reorganization has occurred.

Concerning the first situation mentioned above, some specific application details were introduced in 1997. Accordingly, apart from certain exceptions, when the parties have carried out a rollover to transfer property for federal income tax purposes, a rollover is deemed to have occurred regarding the transfer of such property for Québec income tax purposes. Moreover, the amount that must be considered as the proceeds from the disposal for the transferor and the cost of the property for the beneficiary of the transfer, for the application of Québec tax, is deemed to be the amount considered in this respect from the standpoint of the choice of rollover exercised for the application of federal tax. Similarly, if no turnover took place in respect of the transfer of property for the application of federal tax, no rollover is possible as regards the transfer of this property for the application of Québec tax.

The latter provisions are designed to put an end to transactions designed to avoid provincial tax based on the existence of separate rollover elections in the federal and Québec tax legislation.

- **Deduction of entertainment expenses (1972)**

Meal and entertainment expenses incurred by a taxpayer in the course of carrying on a business or to earn income from property (an apartment building, for instance) may be deducted in calculating his income in a proportion of 50%.

This measure recognizes that certain expenses are necessary to earn income and is intended to ensure that only a taxpayer’s real economic gain is taxed.

However, in view of the element of personal consumption inherent in such expenses, the portion of such expenses that can be deducted is limited to 50%.

Nonetheless, some expenses have been exempted from the 50% limit, namely those relating to the cost of a subscription or the purchase of a block of tickets for concerts by a symphony orchestra or a classical music or jazz ensemble, opera, dance or vocal performances and plays, provided these cultural events take place in Québec.

- **Deduction for tax on forest operations (1972)**

The tax on forest operations is 10% of the income from forest operations.

This tax does not raise the tax burden on the taxpayer since it can be deducted from income tax in both the federal and Québec tax systems.

The Québec deduction is ⅓ of the tax on forest operations, while the federal government allows a deduction of ⅔ of such tax.

This deduction is designed to maintain the taxpayer's overall tax charge unchanged and constitutes a mechanism for transferring tax receipts (through the federal deduction) in a sector of provincial jurisdiction (natural resources).

- **Deduction for investment corporations (1972)**

Briefly, an investment corporation is a Canadian public corporation at least 80% of whose assets consist of shares, bonds, negotiable securities or cash and at least 95% of whose income is derived from investment in such securities.

An investment corporation may elect that the dividends it pays to its shareholders constitute a capital gain for them.

Consequently, investment corporations can claim a deduction in calculating their taxable income equal to the amount of their taxed capital gains, i.e., briefly, the excess of their taxable capital gains for one year over their allowable capital losses for such year.

It should be noted that at the federal level, investment corporations enjoy a tax credit equal to 20% of the excess of their taxable income over their taxed capital gains.

The purpose of this deduction is to integrate the direct tax systems of corporations and individuals, the latter being taxed on the investment income of an investment corporation when they receive it in the form of dividends.

- **Extra deduction for intangible fixed assets (1972)**

Three quarters of the amounts disbursed by a taxpayer as capital and relating to an intangible asset acquired to earn business income constitute the allowable portion of intangible assets of the taxpayer in relation to such business. An annual deduction of up to 7% of the allowable portion of intangible assets is granted to a taxpayer in calculating his business income. An example of an intangible asset is goodwill acquired when a business is purchased.

Essentially, the tax treatment of intangible assets is the same as the one applied to other fixed assets. The cost of acquisition is accordingly deductible gradually, similar to the situation in the case of tax depreciation.

This treatment of intangible assets can give rise to a positive or negative tax expenditure depending on the difference between the accounting rate of depreciation and the rate of the deduction stipulated in the tax legislation.

This measure, besides recognizing that part of the amounts disbursed as capital in the course of a business is used annually to earn business income, is intended to facilitate matters for taxpayers and the tax authorities regarding the determination of the amount to be considered as such in calculating income.

- **Exemption of the active income of foreign subsidiaries of Canadian corporations (1972)**

In general, the tax legislation stipulates that a taxpayer must include in calculating his income any amount he receives as dividends on any shares he owns of the capital stock of a corporation that is not a resident of Canada.

However, in the case where such dividend is received by a corporation that is a resident of Canada on a share of the capital stock of a foreign subsidiary of such corporation, a deduction is granted to the corporation based on the source of the dividend.

Briefly, when the dividend paid constitutes income from an eligible business carried on in a country with which Canada has concluded a tax agreement designed to avoid double taxation, i.e. from the exempt surplus of the foreign subsidiary, the Canadian corporation may deduct the full amount of the dividend in calculating its income. No Québec or Canadian tax is then payable regarding such dividend.

When the dividend paid constitutes a distribution of income from the eligible business carried on in a country with which Canada has not concluded a tax agreement, i.e. from the taxable surplus of the foreign subsidiary, the Canadian corporation can deduct an amount (foreign tax credit) designed to compensate for the fact that tax has been paid abroad on the business income of the dividend. Accordingly, Québec or Canadian tax is payable only if the tax paid abroad is less than 38%, i.e. the basic rate of the federal corporate income tax.

Lastly, when the dividend is paid from surplus prior to the acquisition of the foreign subsidiary, the Canadian corporation can deduct the full amount of the dividend, but must then reduce the tax cost of its shares in the foreign subsidiary. Accordingly, upon disposition of these shares, the gain realized by the Canadian corporation will be greater.

Briefly, a subsidiary is a foreign subsidiary of a taxpayer that is a resident of Canada if such taxpayer has at least a 1% interest in the subsidiary and if the taxpayer and the persons with whom he is related taken together have at least a 10% interest.

The rules relating to dividends paid by foreign subsidiaries are designed to encourage international competitiveness, maintain the integrity of the tax base and eliminate double taxation.

- **Refundable tax credit for losses (1981)**

Until June 30, 1999, Québec's tax legislation allowed a corporation (it could make an election) that suffered a loss other than a capital loss (business loss) in a taxation year, to convert such loss into a refundable tax credit, up to three times its tax on capital payable for the year. However, the portion of the tax credit that could not be claimed during the year of the loss because of such limit could be carried forward for the subsequent seven taxation years.

The rate of the tax credit was the same as that applicable to taxable income eligible for the small business deduction (SBD), namely 5.75%.

This mechanism allowed a corporation to receive the tax value of a loss in the year the loss was suffered, rather than waiting to be able to deduct such loss against taxable income in a subsequent year.

The May 9, 1996 Budget Speech limited the refundable tax credit for losses to SMEs. Accordingly, only corporations that could claim the SBD, namely corporations whose paid-up capital for the preceding taxation year did not exceed $15 million, could henceforth claim a refundable tax credit for losses.

Under the corporate taxation reform, announced March 31, 1998, this tax credit was eliminated. Accordingly, the election allowing such a credit to be claimed can no longer be made for a loss other than a capital loss suffered for taxation years ending after June 30, 1999. In addition, the portion of tax credits relating to taxation years ending after such date, which was non-refundable because of the applicable limits, became fully refundable.

2.2 Tax on capital

– Five-year tax holiday for new corporations (1986)

A five-year tax holiday is granted for new corporations. This tax holiday covers the three major corporate tax bases, namely income tax, tax on capital and employer contributions to the Health Services Fund (HSF)

This tax holiday used to be for three taxation years for corporations whose first taxation year began before March 26, 1997.

More specifically, for a taxation year ending after June 30, 1999, a new corporation which is a Canadian-controlled private corporation could claim a deduction of $2 million in calculating its paid-up capital for the purposes of the tax on capital, if it qualified as a "new corporation".

For a taxation year that includes July 1, 1999, such a corporation could deduct, in calculating its paid-up capital, an amount of $2 million and an additional amount equal to the proportion of $1 million represented by the ratio between the number of days in the taxation year following June 30, 1999 and the number of days in such taxation year.

For a taxation year beginning after June 30, 1999, such a corporation may deduct , an amount of $3 million in calculating its paid-up capital for such year.

This deduction applies only to the first five years of operation of the corporation.

However, the tax on capital payable by a new corporation may not be less than the minimum required under the tax legislation, generally $250. However, no minimum amount will be required for taxation years ending after December 31, 2002.

This measure is designed to encourage new business start-ups and is a form of recognition of the significant costs involved in setting up a business.

– **Tax holiday for international financial centres (1985)**

An international financial centre (IFC) is a business or part of a business all of whose activities pertain to international financial transactions

A corporation or a corporation that is a member of a partnership operating an IFC, enjoys an exemption from the tax on capital regarding the paid-up capital reasonably attributable the operations of the IFC.

The purpose of this measure is to encourage financial institutions and other organizations in the financial sector to carry out international transactions in Montréal.

– **Tax holiday for corporations carrying out an innovative project in certain designated sites (1997)**

The concept of designated sites for carrying out innovative projects was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI). New economy centres (CNE) were created in the March 9, 1999 Budget Speech and the concept was extended to these designated sites.

Briefly, this measure is intended to support companies that promise to undertake, within certain designated sites, innovative projects in specific fields. In the case of corporations that carry out an innovative project in a CDTI or in a CNE, the specific field is information and communications technologies.

Furthermore, the concept of designated sites for carrying out innovative projects was extended to the biotechnology sector. The first biotechnology development centre was designated in Laval. Others were subsequently designated elsewhere in Québec. In the case of biotechnology development centres the target field is biotechnology since these sites are dedicated exclusively to this sector.

A tax holiday is granted to corporations that carry out an innovative project in one of these various types of designated sites. This tax holiday covers the three major corporate tax bases, namely income tax, tax on capital and employer contributions to the HSF.

More specifically, a corporation which carries out an innovative project in one of these various types of designated sites can claim a complete exemption from the tax on capital for its first five years of operation.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to receive these tax benefits.

– **Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel (1999)**

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the location of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

For this purpose, a corporation that carries on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, the Economy and Research, is of particular interest for Québec’s economy, can claim, generally until December 31, 2013, an exemption from the tax on capital relating to the portion of the corporation’s paid-up capital reasonably attributable to carrying on such eligible business.

– **Tax holiday for eligible corporations under the support for the development of stock exchanges and securities clearing-house corporations in Montréal (2000)**

In general, a corporation that, during a taxation year, carries on a securities exchange or a securities clearing corporation business in Québec, runs operations as such in an establishment located within the territory of the city of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, can benefit from tax measures to support the development of stock exchanges and securities clearing-houses.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, from an exemption from income tax,[15] an exemption from the tax on capital and an exemption from employer contributions to the HSF[16] in relation to the securities exchange or securities clearing corporation business they carry on within the territory of the city of Montréal.

More specifically, regarding the tax on capital, this exemption consists of a deduction, in calculating the paid-up capital of an eligible corporation, of the paid-up capital attributable to activities such corporation carries out as a securities exchange or securities clearing corporation, for a taxation year or portion of a taxation year included in the period starting on October 1, 2000 and ending December 31, 2010.

These fiscal measures are intended to accelerate the positioning of the Montréal Exchange on the global financial derivatives market and encourage greater access to capital markets for Québec corporations.

– **Tax holiday for major investment projects (2000)**

On March 14, 2000, the government implemented a tax holiday for major investment projects. This tax holiday replaces the rate guarantee mechanism that was to ensure stable tax rates for businesses that undertake major investment projects.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from employer contributions to the HSF relating to the business carried on following the completion of the major investment project.

In general, to qualify as a "major investment project", an investment project must be carried out in the primary sector, the manufacturing sector or the propulsive services sector, with the exclusion of placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental to it, are also eligible if they consist in building an international resort centre. Furthermore, some criteria must be satisfied within specific timeframes, particularly regarding minimum investment thresholds to be achieved as well as payroll growth. Lastly, to obtain the tax holiday an initial eligibility certificate as well as annual eligibility certificates must be obtained from the Minister of Finance, the Economy and Research.

[15] This tax expenditure is described in the sub-section "Reduced tax rates and exemptions".

[16] This tax expenditure is described in the section "Health Services Fund".

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

Concerning the tax on capital more specifically, a corporation can benefit, for the ten-year period beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from tax on capital consisting of a deduction in the calculation of paid-up capital. This deduction generally corresponds to the amount of paid-up capital calculated using the balance sheet of the separate business.

This tax holiday is designed to further encourage companies to undertake major investment projects in Québec.

– Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)

A ten-year tax holiday is granted to eligible corporations that carry on a manufacturing or processing business in one of Québec's remote resource regions. This tax holiday, which applies from March 30, 2001 to December 31, 2010, covers the same tax bases as the five-year tax holiday for new corporations, namely income tax, tax on capital and employer contributions to the HSF.

A corporation's paid-up capital, calculated on a consolidated basis, is used to establish whether a corporation is eligible for the tax holiday. If such paid-up capital is between $20 million and $30 million, it is also used to establish the amount of the tax holiday regarding the tax on capital the corporation may receive for such year.

More specifically, for a taxation year, the tax holiday regarding the tax on capital consists of a deduction corresponding to the amount of paid-up capital if such paid-up capital, calculated on a consolidated basis, does not exceed $20 million.

However, the deduction is reduced linearly when paid-up capital of the corporation, calculated on a consolidated basis, is between $20 million and $30 million. No deduction is allowed if paid-up capital, calculated on a consolidated basis, exceeds $30 million. Finally, a reduction must be made for corporations whose taxation year includes March 30, 2001, or if the end of the taxation year does not coincide with December 31, 2010.

– Gradual exemption of the first $1 million of paid-up capital (2001)

On November 1, 2001, a deduction that may eventually reach $1 million was introduced in the calculation of the paid-up capital of certain corporations.

However, this deduction does not apply to a financial institution or to a corporation exempt from income tax but subject to payment of the tax on capital.

This deduction is granted gradually on January 1 of each year from 2003 to 2006. More particularly, this deduction is fixed to $250 000 for calendar year 2003, $500 000 for calendar year 2004, $750 000 for calendar year 2005, finally reaching $1 000 000 as of calendar year 2006. When the taxation year does not coincide with the calendar year, the maximum deduction must be determined on the basis of the number of days of the taxation year included in each of the two calendar years.

Furthermore, this new deduction is designed initially to reduce the burden of the tax on capital on small corporations. Accordingly, the application details of this deduction stipulate, for the period of introduction from 2003 to 2005, that this deduction be reduced according to size.

Lastly, the members of a group of associated corporations must share this deduction.

This measure is designed chiefly to reduce the burden of the tax on capital on small corporations.

– **Deduction of one-third of the paid-up capital of mining corporations (1979)**

A mining corporation can reduce its tax on capital otherwise payable by 33 ⅓ % provided its gross income for the year is derived from a mineral resource.

This measure is designed to recognize the substantial capital needs of mining corporations.

– **Rate of 2% for life and health insurance premiums (1972)**

For the purposes of the tax on capital, insurance companies are not subject to the same tax base as other companies. Instead of being taxed on paid-up capital, the tax on capital of insurance companies depends on the premiums they collect.

The rate of the tax is 2% when the premium is for a life insurance, health insurance or disability insurance policy, and 3% in other cases.

The decision to raise the rate of the tax to 3% of premiums for property damage was made in 1980, thus granting a tax preference for life and health insurance premiums which remained subject to a rate of 2%.

On May 9, 1996, a compensatory contribution on the capital of life insurance companies, similar to the one in effect in Ontario and drawing largely on the federal Part VI tax, was introduced. This compensatory contribution corresponds to the amount by which 1.25% of the "taxable capital" used in Québec of such a company for a year exceeds the amount of income tax payable under Part I by such company. However, an annual capital exemption is allowed (minimum of $10 million).

– **Exemption for cooperatives (1972)**

Québec's tax legislation exempts cooperatives from payment of the tax on capital. The cooperative movement is essentially based on providing users with service at lower cost, and not on enriching those who have invested capital therein.

However, the May 9, 1996 Budget Speech made savings and credit unions, which are cooperatives, subject to the tax on capital. Accordingly, for its taxation years ending after May 9, 1996, a credit union is subject to the rate of a financial institution applicable on its paid-up capital, which corresponds to the total of:

- its permanent shares;
- its long-term liabilities;
- 50% of the value of its tangible assets.

Note that the rate of the tax on capital of a financial institution is 1.28% until December 31st, 2002. As part of the Budget Speech of November 1, 2001, the government announced that this rate would be gradually reduced as of January 1, 2003 to 0.60% by January 1, 2007.

However, a basic deduction of $300 000 is allowed in calculating its paid-up capital.

– **Exemption for corporations operating in the agriculture or fisheries sector (1985 and 1995)**

Corporations whose chief activities consist in carrying on an agriculture or fishing business can claim a deduction of $400 000 in calculating their paid-up capital for the purposes of determining their tax on capital. However, the tax on capital payable by such corporations cannot be less than $125.

For taxation years ending before January 1, 2003, the tax on capital to be paid by such corporations cannot be less than the minimum of $125. However, in the Budget Speech of November 1, 2001, this minimum $125 amount was eliminated for taxation years ending after December 31, 2002.

The purpose of this deduction is to recognize that, compared with other businesses, agricultural or fishing corporations require a relatively high level of capitalization in relation to the income they generate.

– Inactive corporations with assets of less than $5 000 (1979)

A corporation which has not carried on a business during a taxation year and whose assets do not exceed $5 000 is exempt from the tax on capital for such year.

The purpose of this measure is to not demand minimum amounts of tax from corporations whose activities have ceased.

– Exemption of government organizations, charities and other non-profit organizations (1972)

Municipalities and other public organizations, registered charities, non-profit organizations and other organizations exempt from income tax are also exempt from payment of the tax on capital.

This is a preferential measure explained by the nature of the activities carried out by such organizations.

– Mining corporation yet to reach the production stage (1972)

For taxation years ending before January 1, 2003, a mining corporation that has yet to reach the production stage pays the minimum amount of tax on capital of $250 rather than a tax that depends on its paid-up capital. This minimum $250 amount was eliminated in the November 1, 2001 Budget Speech for taxation years ending after December 31, 2002.

This measure is designed to recognize the cash difficulties of mining corporations developing a deposit without having reached the production stage.

– Deduction for the acquisition or conversion of ships (1996 and 1997)

Since May 9, 1996, a deduction is allowed in calculating the paid-up capital of a corporation, for the purposes of the tax on capital, based on the acquisition expenses of a ship satisfying certain requirements or the portion of the capital cost of an eligible ship that has been incurred since the beginning of construction. This deduction is allowed for a period including the taxation years during which the ship is under construction, the year it is delivered and the four subsequent years.

The ship must be built in a shipyard in Québec, as part of a project for which the ministère des Finances, de l'Économie et de la Recherche has issued a certificate. The eligible acquisition expenses of a corporation mean, in general, the expense corresponding to the portion of the cost of construction paid by the corporation to the builder since the beginning of construction or, if the corporation builds the ship itself, the portion of the capital cost incurred since the beginning of construction.

Since March 25, 1997, eligible conversion expenses incurred by a corporation also give rise to a deduction in calculating the corporation's paid-up capital.

This measure is designed to encourage shipbuilding and conversion in Québec.

– Holiday from the tax on capital for new investments in certain sectors (1997)

A supplementary deduction of 25% for depreciation as well as a holiday from the tax on capital for new investments in certain sectors were introduced on March 25, 1997.

More specifically, the holiday from the tax on capital consists of a deduction, in calculating the paid-up capital of a corporation that is not a financial institution, based on the eligible acquisition expenses incurred by it regarding an eligible asset.

A corporation can claim this deduction for eligible acquisition expenses it incurs, in a taxation year, for the taxation year during which such expenses are incurred and for the subsequent taxation year.

Briefly, eligible assets for the purposes of this holiday from the tax on capital are manufacturing or processing equipment, foreign ore processing equipment, computer hardware, buildings used in the course of manufacturing or processing activities, buildings used in the course of processing foreign ore, as well as buildings and equipment used in the course of eligible activities relating to the tourism sector.

However, these assets must be acquired by a corporation, or by a partnership, as the case may be, before April 1, 2005, subject to the transition periods stipulated by the tax legislation.

This measure is designed to encourage investment in Québec.

– Reduction in the paid-up capital of certain financial institutions (1998)

On March 31, 1998, a deduction was introduced in the calculation of the paid-up capital of certain financial institutions.

More specifically, a bank may deduct, in calculating its paid-up capital for a taxation year, an amount equal to $500 million if its world assets, for the preceding taxation year, were less than $100 billion.

This measure applies for taxation years ending after March 31, 1998. However, for a taxation year that includes that date, the amount of this deduction is calculated in proportion to the number of days of such taxation year following such date.

This measure is designed to allow Québec to benefit from the consolidation trend in the banking industry.

2.3 Health Services Fund

– Five-year tax holiday for new corporations (1996)

Until 1996, the five-year tax holiday for new corporations applied only to income tax and the tax on capital. This tax holiday was broadened on May 9, 1996, so that a new corporation can also claim an exemption regarding its employer contributions to the Health Services Fund (HSF) attributable to wages paid or deemed paid in the course of its initial taxation years.

This tax holiday used to be for three taxation years for corporations whose first taxation year began before March 26, 1997. It was increased to five years for an eligible corporation whose first taxation year begins after March 25, 1997.

More specifically, for a taxation year ending no later than June 30, 1999, a new corporation which is a Canadian-controlled private corporation can claim an exemption from employer contributions to the HSF, for wages paid or deemed to be paid during such taxation year up to $300 000, if it qualifies as a "new corporation".

The contribution exemption rises gradually to $500 000 and to $700 000 for taxation years ending after June 30, 1999 and June 30, 2000 respectively. The increase in the exemption is based on the number of days of the taxation year following June 30, 1999 or June 30, 2000, as the case may be.

This deduction applies only to the first five years of operation of the corporation.

This measure is designed to encourage new business start-ups and is a form of recognition of the significant costs involved in setting up a business.

– Tax holiday for international financial centres (1985)

An international financial centre (IFC) is a business or part of a business all of whose activities bear on financial transactions of an international nature.

A corporation or a partnership operating an IFC enjoys an exemption from employer contributions to the HSF for the wages paid or deemed to be paid to the employees of the business recognized as an IFC. A corporation is also exempt from the compensatory tax on financial institutions regarding such wages.

These exemptions are designed to encourage the establishment of IFCs in Montréal.

– Tax holiday for corporations carrying out an innovative project in certain designated sites (1997)

The concept of designated sites for carrying out innovative projects was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI). New economy centres (CNE) were created in the March 9, 1999 Budget Speech and the concept was extended to these designated sites.

Briefly, this measure is intended to support companies that promise to undertake, within certain designated sites, innovative projects in specific fields. In the case of corporations that carry out an innovative project in a CDTI or in a CNE, the specific field is information and communications technologies.

Furthermore, the concept of designated sites for carrying out innovative projects was extended to the biotechnology sector. The first biotechnology development centre was designated in Laval. Others were subsequently designated elsewhere in Québec. In the case of biotechnology development centres the target field is biotechnology since these sites are dedicated exclusively to this sector.

A tax holiday is granted to corporations that carry out an innovative project in one of these various types of designated sites. This tax holiday covers the three major corporate tax bases, namely income tax, tax on capital and employer contributions to the HSF.

More specifically, a corporation that carries out an innovative project in one of these various types of designated sites can claim a total exemption from employer contributions to the HSF for its first five years of operation.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to receive these tax benefits.

– Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel (1999)

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the location of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

For this purpose, a corporation that carries on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, the Economy and Research, is of particular interest for Québec's economy, can claim in general an exemption from employer contributions to the HSF for wages paid, before January 1, 2014, to the employees of such eligible business who carry out at least 75% of their duties within the Mirabel Zone.

– **Tax holiday for eligible corporations under the support for the development of stock exchanges and securities clearing-house corporations in Montréal (2000)**

In general, a corporation that, during a taxation year, carries on a securities exchange or a securities clearing corporation business in Québec, runs operations as such in an establishment located within the territory of the city of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, can benefit from tax measures to support the development of stock exchanges and securities clearing-houses.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, exemption from income tax,[17] an exemption from the tax on capital[18] and an exemption from employer contributions to the HSF in relation to the securities exchange or securities clearing corporation business they carry on within the territory of the city of Montréal.

Concerning the exemption from employer contributions to the HSF more specifically, these support measures consist of an exemption from contributions for salaries paid to employees of the securities exchange or securities clearing corporation carried on within the territory of the City of Montréal by the eligible corporation, for a pay period ending after October 1, 2000 and before December 31, 2010.

These fiscal measures are intended to accelerate the positioning of the Montréal Exchange on the global financial derivatives market and encourage greater access to capital markets for Québec corporations.

– **Tax holiday for major investment projects (2000)**

On March 14, 2000, the government implemented a tax holiday for major investment projects. This tax holiday replaces the rate guarantee mechanism that was to ensure stable tax rates for businesses that undertake major investment projects.

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17 This tax expenditure is described in the sub-section "Reduced tax rates and exemptions".

18 This tax expenditure is described in the section "Tax on capital".

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from employer contributions to the HSF relating to the business carried on following the completion of the major investment project.

In general, to qualify as a "major investment project", an investment project must be carried out in the primary sector, the manufacturing sector or the propulsive services sector, with the exclusion of placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental to it, are also eligible if they consist in building an international resort centre. Furthermore, some criteria must be satisfied within specific timeframes, particularly regarding minimum investment thresholds to be achieved as well as payroll growth. Lastly, to obtain the tax holiday an initial eligibility certificate as well as annual eligibility certificates must be obtained from the Minister of Finance, the Economy and Research.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

More particularly concerning the exemption from employer contributions to the HSF relating to the business carried on following the completion of the major investment project, such exemption applies regarding the wages paid for a pay period ending during the ten-year tax holiday period.

This tax holiday is designed to further encourage companies to undertake major investment projects in Québec.

– Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)

A ten-year tax holiday is granted to eligible corporations that carry on a manufacturing or processing business in one of Québec's remote resource regions. This tax holiday, which applies from March 30, 2001 to December 31, 2010, covers the same tax bases as the five-year tax holiday for new corporations, namely income tax, tax on capital and employer contributions to the HSF.

The paid-up capital of a corporation, calculated on a consolidated basis, is used to establish whether a corporation is eligible for the tax holiday. When paid-up capital is between $20 million and $30 million, it is also used to establish the amount of the tax holiday regarding employer contributions to the HSF the corporation can claim for such year.

More particularly, for a taxation year, the tax holiday regarding employer contributions to the HSF applies, for a given taxation year, to all the wages paid or deemed paid by an eligible corporation during such given taxation year if paid-up capital, calculated on a consolidated basis, is no greater than $20 million.

However, the exemption regarding employer contributions to the HSF applicable to pay periods ending in a taxation year reduces linearly if the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $20 million but less than $30 million. No exemption is allowed if paid-up capital calculated on a consolidated basis, is greater than $30 million.

Furthermore, if an eligible corporation's taxation year includes March 30, 2001, the exemption only covers wages paid or deemed paid as of the pay period that includes March 30, 2001. Lastly, the exemption an eligible corporation may claim, for its taxation year that includes December 31, 2010 must be reduced to reflect solely the wages paid or deemed paid until the last pay period preceding January 1, 2011.

- **Refundable credit of employer contributions to the HSF for corporations located in E-Commerce Place (2002)**

E-Commerce Place, located in downtown Montréal, was created on May 11, 2000. Briefly, eligible corporations that move into E-Commerce Place can receive, for a ten-year period beginning no earlier than May 12, 2000 and ending no later than December 31, 2013, tax assistance with respect to eligible salaries they incur and pay to eligible employees to carry out eligible activities.

Initially, this tax assistance consisted of a refundable tax credit. However, in the Supplement to the Government's Budgetary Policy of March 19, 2002, an election was introduced allowing an eligible corporation to elect to claim either the refundable tax credit or a refundable credit of employer HSF contributions. The election is possible regarding taxation years of an eligible corporation ending after March 19, 2002.

The rate of this tax assistance consisting of a refundable credit of employer contributions to the HSF is generally 35% but may be reduced beginning in the sixth year of operation of an eligible corporation in E-Commerce Place, if the eligible corporation has not created a minimum number of jobs in Québec.

Furthermore, the amount of such tax assistance an eligible corporation may receive, for a taxation year, regarding the eligible salary paid to an eligible employee for such year is limited, however, to $12 500 per eligible employee. Accordingly, for the purposes of this tax assistance, the eligible salary of an eligible employee is limited to $35 714, calculated on an annual basis.

This tax assistance is designed to support job creation in the field of e-commerce operations.

3. TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM

3.1 Québec sales tax (1992)

– Zero-rated property and services

- **Basic groceries**

Basic groceries, which include most foodstuffs meant to be prepared and eaten at home, are not subject to the Québec sales tax (QST). However, the QST does apply to certain products such as softdrinks, candy and other confectionery, snacks, and alcoholic beverages. A similar measure, introduced in 1940, also existed under the former retail sales tax system.

This exemption was meant to take into account the negative consequences of a tax on basic foodstuffs for low-income taxpayers and the general opinion expressed by taxpayers that basic foodstuffs should not be taxed.

- **Prescription drugs**

Controlled drugs that may only be obtained by prescription and other drugs prescribed by a physician or a dentist are not subject to the QST. However, this exemption does not apply to labelled drugs or drugs supplied for veterinary use.

This exemption was included because prescription drugs associated with health care are considered an essential need. Taxation of such drugs would have negative consequences on low-income taxpayers.

Under a measure introduced in 1940, the former retail sales tax system also exempted drugs prescribed by a physician.

- **Medical devices**

A wide range of medical devices are not subject to the QST, in particular canes, crutches, wheelchairs, artificial limbs and orthopaedic supports, medical and surgical prostheses, hospital beds, artificial breathing devices, hearing and speaking aids, corrective glasses and contact lenses supplied or intended to be supplied by prescription, various products for diabetics, and certain devices designed specially for the blind and the hearing and speech impaired. Replacement parts and the installation and repair costs for these devices are also exempt.

This exemption was provided because medical devices associated with health care are considered essential needs for disabled persons, who must assume these special expenses in order to live in society and hold employment.

It should be noted that certain medical devices were also exempt from the former retail sales tax system starting in 1944, but not as many.

- **Books**

In general, books are not subject to the QST. In 1940, a similar exemption was introduced under the former retail sales tax system.

This measure is intended to encourage the book publishing industry, which is at the heart of Québec's specific identity, and to maintain access to this cultural product for all taxpayers.

- **Hotel packages**

Prior to April 1, 1997, the QST did not apply to lodging and meals provided in conjunction with a hotel package including at least two consecutive nights of accommodation and two meals per day.

This measure, which was implemented on February 1, 1994 in order to promote the development of the Québec tourism industry, did not have the anticipated effect on tourism demand. Consequently, it was abolished on April 1, 1997. Since then, $10 million has been allocated annually, drawn from the revenues engendered by the abolition of this measure, to bolster the promotion and development of the Québec tourism industry.

- **Financial services**

The QST system, like the goods and services tax (GST) system, provides for a tax exemption in respect of most financial services, including, in particular, financial intermediation, market intermediation and risk-pooling services.

This measure was provided because of the problems posed by the application of a sales tax on financial services. Given the structure of this sector, the price of services offered is often implicit and is reflected, for example, in the difference between the interest rate demanded of borrowers and the yield granted depositors, insured parties and annuitants. Although it is theoretically possible to establish these implicit prices, the operation is extremely complex in practice and, as a result, no country has succeeded in effectively applying a sales tax on financial services.

Unlike the GST system, the QST system grants the suppliers of financial services a refund on the QST paid in respect of their purchases of property and services (inputs).

This refund is intended to maintain the competitiveness of Québec's financial institutions and to keep these institutions from acquiring property and services or carrying on certain activities (legal services, computer services, etc.) outside the province because of the increase in costs arising from the application of the QST.

However, in order to maintain neutrality toward other economic sectors and take into account the cost to the government of this refund, financial institutions are subject to a compensatory tax that is intended to hold their overall tax burden constant in relation to what it was prior to the reform of the QST.

– **Exempt property and services**

- **Rental accommodation**

The QST does not apply to long-term rental accommodation (at least one month) or to short-term accommodation (less than one month) the cost of which does not exceed $20 per day (this provision covers certain temporary lodgings in boarding houses).

This exemption was provided because housing is considered to be an essential need that is a major element of household consumption. The taxation of rental accommodation would have serious negative consequences for low-income taxpayers.

- **Sales of used residential buildings or personal use buildings**

The sale of used residential buildings or personal use buildings is not usually subject to the QST (for example, a house occupied by the owner, an apartment building or a cottage). However, this exemption does not apply to commercial buildings or to those sold as part of a business.

This exemption is intended to avoid QST cascading, which would be contrary to the basic principle of a value-added tax. The exemption also ensures access to home ownership for many households.

- **Health care services**

The QST does not apply to health care services, which include:

– services provided in a health care institution;

– services provided by certain health practitioners whose profession is governed by the government in at least five provinces, in particular, physicians, dentists, audiologists, occupational therapists, and optometrists;

– services covered by a provincial health insurance plan.

Health care services are exempt because they are considered to be essential services to which all taxpayers must have access. The taxation of such services would have negative consequences for low-income taxpayers. Moreover, the province bears most health care costs.

- **Educational services**

Most educational services are exempt from the QST. The exemption applies to the tuition fees paid in respect of courses offered mainly to elementary and secondary school students, credit courses leading to a diploma or certificate granted by a recognized school authority, college or university, and certain other types of vocational training. Moreover, the exemption applies to meals supplied to elementary and secondary school students and most of the meal plans available in colleges and universities.

Educational services are exempt because they are considered to be essential services to which all taxpayers must have access.

- **Child care and personal care services**

The QST does not apply to the following services:

– child care services offered for a period normally less than 24 hours to children 14 years of age or under (private or public day care centres, nursery schools, kindergartens, day camps, etc.);

– personal care services that consist of providing care, supervision and a place of residence to children or disabled or underprivileged persons in an establishment operated for this purpose (reception centres, children's aid societies, etc.).

Child care and personal care services are exempt because they are considered to be essential services.

- **Standard municipal services**

Municipal services pertaining to the establishment and maintenance of municipal infrastructure and which are integral to the role of local authorities are exempt from the QST. These are standard residential services supplied by the municipalities that property owners may not refuse, such as garbage collection, police and fire protection services, waterworks and sewage systems, and road construction.

These services, which are usually financed by the municipality's general revenues (tax accounts), are exempt because they are considered to be essential services that benefit the entire community.

- **Municipal transit services**

The QST does not apply to municipal transit services when they are provided by a body operated or funded by the government, a municipality or a school authority and when at least 90% of the services provided by the body consist in providing public transportation in a municipality and its surroundings.

Municipal transit services are exempt because they are considered to be essential services to which the entire community must have access.

- **Ferries, and road and bridge tolls**

Ferry services between parts of a road system separated by a stretch of water and the tolls paid to have the right to use a road or a bridge are not subject to the QST.

These exemptions were provided because the right to use the road system is considered to be an essential service to which society as a whole must have access.

– **Tax rebates**

- **Rebates granted to public service bodies**

  - **Charities and certain non-profit organizations**

Charities and non-profit organizations funded at least 40% by a government or municipality may obtain a 50% rebate of the QST paid on their purchases.

This rebate, which is granted in order to take into account the important role played by such organizations in Québec society, is intended to appreciably reduce the additional tax that the introduction of the QST would have levied on charitable and non-profit activities benefiting from public support.

  - **Schools, colleges, universities, hospitals and municipalities**

To ensure that non-profit schools, colleges and universities and hospitals and municipalities do not assume a greater tax burden because of the reform of the QST, a partial rebate of the tax paid by these organizations on their purchases was introduced on July 1, 1992.

The rebate rate for non-profit schools, colleges and universities was initially set at 30%, and was raised to 47% on May 10, 1995.

The rebate rate for hospitals was raised from 19% to 70% on May 10, 1995, then reduced to 66% on April 1, 1997 and to 60% on April 1, 2000.

Finally, the rebate rate for municipalities was raised from 40% to 43% on May 10, 1995. The rebate was completely eliminated on January 1, 1997.

- **Rebate granted to purchasers of new residential housing**

Purchasers of new housing are entitled to a partial rebate of the QST paid on the home if they occupy it as their primary residence. In the case of homes costing $200 000 or less ($175 000 prior to March 15, 2000), 36% of the total QST paid is refunded. The rebate decreases gradually for homes priced between $200 000 and $225 000 (between $175 000 and $200 000 prior to March 15, 2000). The maximum rebate is on the order of $5 642 ($4 937 prior to March 15, 2000 and $4 278 prior to January 1, 1998).

The rebate was implemented on May 13, 1994 and was designed to ensure access to home ownership for most households and to ensure that the QST has only a negligible impact on the price of new housing.

- **Rebate granted to lessors of new residential property**

Like purchasers of new residential housing, purchasers and builders of new residential rental property are entitled to a partial rebate of the QST paid on new residential units to be rented for a period of at least 12 months. This rebate is in fact similar to the rebate for new residential housing, in that 36% of the total QST paid is refunded in the case of rental units priced $200 000 or less ($175 000 prior to March 15, 2000), and in that the rebate gradually decreases for units priced between $200 000 and $225 000 (between $175 000 and $200 000 prior to March 15, 2000). The maximum rebate is on the order of $5 642 ($4 397 prior to March 15, 2000).

The rebate was implemented on February 28, 2000, and was designed to reduce a portion of the QST payable at the outset by purchasers and builders of new residential rental property. As a result of the rebate, purchasers and builders of such property can take advantage of the rate available to purchasers of owner-occupied residential buildings.

- **Rebate granted to foreign tourists**

Prior to October 1, 2000, foreign tourists visiting Québec were entitled to a rebate of the QST paid on most property acquired for use primarily outside the province.

Prior to November 1, 2001, they were entitled to a rebate of the QST paid on short-term accommodation services (less than one month).

The revenue from the elimination of these measures, which was to be used to promote the development of the tourism industry, is instead funnelled directly to Tourisme-Québec to bolster the promotion and development of Québec tourism internationally.

- **Rebate provided for automatic door openers for the use of disabled persons**

The purchaser of an automatic door opener and the related installation service is entitled to a rebate of the QST paid in this respect when the door opener is acquired for the use of a person who, because of a physical disability, is unable to enter his residence without assistance.

This rebate was introduced on March 10, 1999 so that automatic door openers benefit from tax treatment similar to that applied to other medical devices, which are considered to satisfy the essential needs of disabled persons.

– **Measures to facilitate QST administration**

- **Exclusion of small suppliers from the field of application of the QST**

Small suppliers, i.e. businesses whose sales do not exceed $30 000 in a given year ($50 000 since April 23, 1996 in the case of businesses that are public service bodies), are not required to register for the QST system and do not have to collect the tax on their sales, except the sale of real properties. However, unlike other businesses, they may not claim a refund of the QST paid in respect of property and services acquired for their commercial activities (inputs). In fact, small suppliers have the choice of operating their activities outside the field of application of the QST.

This measure was introduced on July 1, 1992 with regard to the suppliers of services and was amended on August 1, 1995 to also cover the suppliers of tangible personal property. It was adopted to avoid imposing an overly cumbersome administrative burden for small businesses, given their low tax remittances.

- **Simplified accounting methods**

  - **Simplified method for charities**

Most charities that are registrants for the application of the QST system must use the simplified method to account for the tax, which avoids their having to break down their purchases (inputs) in light of their use in the making of taxable or exempted supplies. Generally speaking, this method enables them to remit only 60% of the tax collected on their taxable sales, other than their sales of capital and real properties. On the other hand, they may generally obtain a rebate of only 50% of the tax paid on their purchases (inputs) other than their purchases of real and capital properties, regardless of whether these purchases pertain to the making of taxable or exempted supplies.

This method, which was introduced on January 1, 1997, was designed to simplify the administration of the QST for charities.

Quick method for small businesses

Small businesses whose annual receipts from taxable sales are not more than $200 000 may use a quick method to account for the QST. This method allows them to pay QST equal to a fixed percentage of their taxable sales, determined according to the type of business they operate, rather than to establish the QST collected on each of their sales and the QST paid on most of their purchases (inputs). The payment of a percentage of taxable receipts makes it possible to obtain a result equivalent to an estimate of the net QST to be remitted. The percentage of the payment is therefore low for businesses with low added value, such as the retail sector (2.7% since January 1, 1998 and 2.3% prior to that date), but higher for other businesses (5.3% since January 1, 1998 and 4.6% prior to that date).

This method was introduced on August 1, 1995 and was intended to simplify the administration of the QST for small businesses.

Quick method for qualifying public service bodies

Qualifying public service bodies (non-profit organizations funded at least 40% by a government or a municipality, municipalities, hospitals and non-profit schools, colleges and universities) may use a quick method to account for the QST. This method allows them to pay an amount of tax equivalent to a fixed percentage (since January 1, 1998, 4.6% for municipalities and 5.9% for other bodies, as against 5% prior to that date for all bodies) of their taxable receipts instead of establishing the QST collected on each of their sales and the QST paid on most of their purchases (inputs). The payment of a percentage of taxable receipts makes it possible to obtain a result equivalent to an estimate of the net QST to be remitted.

This method was introduced on July 1, 1992 and was designed to simplify the administration of the QST for qualifying public service bodies.

Simplified calculation methods of ITRs and partial QST rebates

Small businesses and qualifying public service bodies which, during the preceding fiscal year, had receipts from taxable sales of no more than $500 000 and made purchases of no more than $2 000 000 may use, respectively, the simplified calculation method of input tax refunds (ITRs) or the simplified calculation method of partial QST rebates in order to determine the ITRs or the partial rebates to which they are entitled. These methods allow them to calculate their ITRs or their partial QST rebates by multiplying the total of their purchases entitling them to such rebates by a factor of 7.5/107.5 (6.5/106.5 prior to January 1, 1998) and, in the case of public service bodies, by also multiplying the total by the partial QST rebate rate applicable to them. Thus, they do not have to determine the amount of the QST paid on each of their purchases (inputs). These methods do not modify the way by which small businesses and public service bodies bill or collect the QST or the manner in which they declare the QST collected.

These methods were introduced into the QST system on August 1, 1995 and were intended to simplify the calculation by small businesses of ITRs and by qualifying public service bodies of partial QST rebates.

– **Other tax expenditures**

- **Non-taxable imports**

Certain property brought into Québec is not subject to the QST, notably property whose price does not exceed $20 that is sent from outside Canada to Québec residents, property purchased by a Quebecer during a stay of at least seven days outside Canada if the value of such property does not exceed a certain limit, now set at $750, and the personal effects of an individual arriving in Québec to take up permanent residence.

These exemptions were provided to simplify the administration of the QST.

- **Exemption granted to the Société Saint-Jean-Baptiste de Montréal**

The Société Saint-Jean-Baptiste de Montréal and the separate civil entities formed by it (Fondation Langelier, Fondation Du Prêt d'Honneur and Comité de la Fête Nationale de la Saint-Jean Inc.) are not subject to the QST in accordance with a provision of the *Loi refondant la charte de l'Association Saint-Jean-Baptiste de Montréal*, which stipulates that these entities are exempt from all provincial taxes.

This exemption, which was introduced in 1912, is granted because the Société Saint-Jean-Baptiste de Montréal is considered to be a public utility.

– **Tax measures shown for information purposes**

- **Entertainment expenses**

The QST system allows small or medium-size businesses to claim a refund of the QST paid in respect of property and services acquired in the course of their commercial activities (inputs). However, such businesses may generally recover only 50% of meals and entertainment expenses (large businesses are not entitled to a refund of the QST paid in respect of such expenses).

This measure recognizes the fact that meal and entertainment expenses are incurred in the course of businesses' commercial activities. However, given the element of personal consumption inherent in such expenses, the QST paid in this respect and which is subject to a refund is limited to 50%.

However, certain expenses are exempted from the application of the 50% limit, i.e. the cost of a subscription or block purchases of tickets for symphony concerts or the concerts of classical or jazz groups, opera performances, dance or vocal performances, or plays, provided that the cultural events take place in Québec.

- **Rebate granted to employees and partners**

Under the QST system, the employee of a business is entitled to a rebate of the QST paid in respect of expenses deducted in the calculation of his employment income for income tax purposes. Similarly, an individual who is a partner in a partnership is entitled to a rebate of the QST paid in respect of the expenses incurred outside of the partnership and which are deducted in the calculation of his income derived from the partnership.

3.2 Tax on insurance premiums

- **Exemption with respect to an individual policy of insurance of persons**

The 9% tax on insurance premiums does not apply to individual life insurance premiums and to individual insurance against sickness or accident premiums. This exemption was introduced on December 19, 1985.

- **Reduction in the tax rate for automobile insurance**

The regular rate of the tax on insurance premiums (9%) was reduced on May 1, 1987 by four percentage points in respect of automobile insurance premiums. However, this reduction does not apply to the amounts payable to the Société de l'assurance automobile du Québec.

- **Exemption with respect to certain compulsory insurance plans**

The tax on insurance premiums does not apply to amounts paid under the following laws:

– the *Act respecting industrial accidents and occupational diseases*;

– the *Crop Insurance Act*;

– the *Act respecting farm income stabilization insurance*;

– the *Act respecting the Régie de l'assurance-maladie du Québec*;

– the *Act respecting the Québec Pension Plan*;

– the *Employment Insurance Act*.

This measure was implemented on April 24, 1985 and was adopted to avoid subjecting most insurance plans of a social nature that were compulsory under specific laws.

3.3 Fuel tax

- **Reduction in the rate of the tax in certain regions**

  - **Border regions**

Since January 15, 1982, a reduction in the regular rate of the tax on gasoline, now set at 15.2 cents per litre, has been granted on gasoline sold in regions bordering on an American state or a Canadian province. The reduction granted, which is established according to a maximum distance of 20 km from the border, ranges from 2 to 8 cents per litre in regions bordering on the United States and from 1 to 4 cents per litre in regions bordering on Ontario, New Brunswick and Labrador (until May 31, 1997, the reduction granted in regions bordering on New Brunswick and Labrador ranged from 2 to 8 cents per litre).

This reduction is intended to maintain the competitive position of Québec retailers situated near the border in relation to their competitors located in jurisdictions bordering on Québec.

  - **Remote regions**

Since December 19, 1985, a reduction in the regular rate of the fuel tax, which is now 15.2 cents per litre of gasoline and 16.2 cents per litre of fuel oil, has been granted on fuel sold in regions far from major urban centres. This reduction applies essentially to peripheral regions, which designates genuinely remote territories, and specified regions, which are actually buffer zones between the peripheral regions and regions that do not benefit from a reduction in the fuel tax. The reduction granted is 4.65 cents per litre of gasoline and 3.82 cents per litre of fuel oil in peripheral regions (6.65 cents per litre of gasoline and 5.82 cents per litre of fuel oil prior to July 1, 1995), and 2.3 cents per litre of gasoline and 1.9 cents per litre of fuel oil in specified regions (3.3 cents per litre of gasoline and 2.9 cents per litre of fuel oil prior to July 1, 1995).

This measure was intended to reduce the price of fuel, which is generally higher in regions that are far from major urban centres, because of transportation costs.

- **Reduction in the rate of the tax for aircraft and railroad locomotives**

A reduction in the fuel tax rate has been granted in respect of aircraft since 1972 and railroad locomotives since 1980. The regular rate of the tax of 15.2 cents per litre of gasoline and 16.2 cents per litre of fuel oil is reduced to 3 cents per litre when the fuel is purchased to supply aircraft or railroad locomotive engines.

This reduction is intended to avoid the shifting of economic activity.

- **Exemptions and refunds granted to farmers and fishers**

Persons whose main occupation is farming or fishing (or the processing and the marketing of fish) are exempt from the tax or are entitled to a tax refund in respect of fuel oil or gasoline used to supply, as the case may be, farm machinery (except an automobile or truck) or fishing boat engines, to the extent that the equipment has been used for farm work or fishing.

These measures, introduced in 1935 (refunds relating to gasoline) and in 1972 (exemptions pertaining to fuel oil), were designed to foster economic development and bolster the competitive position of Québec businesses operating in the farming and fishing sectors by reducing their production costs.

- **Exemptions and refunds granted to the industrial sector**

Under the modifications made to the fuel tax system in 1935 and 1972, the industrial sector benefits from relief as regards the fuel used in certain activities:

– the tax does not apply to solvents derived from petroleum or to gasoline intended for chemical uses;

– the tax paid is refunded in respect of gasoline, bunker fuel or crude oil used to supply a non-propulsion (stationary) engine and gasoline used for the purpose of scientific research, experimentation or demonstration (except the supply of propulsion engines).

These measures are intended to foster economic development and enhance the competitive position of the Québec industrial sector.

- **Exemption and refund granted to the aviation sector**

The fuel tax system provides for relief with respect to fuel used in certain airline activities. Under these fiscal measures:

– since June 23, 1983, the tax has not applied to aviation fuel used on an international flight;

– the tax paid on gasoline used to supply an aircraft engine while being tested on the ground or in the air has been refunded since 1980 (prior to 1980, the tax was not refunded but the rate of the tax was reduced).

These measures are intended to avoid the shifting of economic activities.

- **Exemption for commercial vessels**

The fuel tax does not apply to bunker fuel or crude oil used to supply the engine of a commercial vessel.

This measure was implemented in 1972 and is intended to foster economic development and enhance the competitive position of businesses operating commercial vessels by reducing their production costs. It also makes it possible to avoid shifting the economic activities of these businesses.

- **Exemption for propane gas**

Since March 26, 1997, the fuel tax has not applied to propane gas.

This exemption is intended to encourage the conversion of road vehicles to this clean fuel, consolidate the propane gas distribution network and help maintain and create jobs.

- **Refund granted to farm, forest and mining businesses**

Since April 19, 1978, farm, forest and mining businesses have been entitled to a refund of the tax paid on fuel used to operate road vehicles registered for off the road use and used in their operations.

This measure is intended to foster economic development and enhance the competitive position of the Québec farming, mining and forest industries by reducing their production costs.

- **Reimbursement granted for public carriers**

Public carriers are entitled to a partial reimbursement of the tax paid (33 ⅓ %) on fuel used to supply the engine of buses assigned to provide public transport, other than school, chartered or airport transportation, or buses used to transport groups of people for activities shared by these people.

This measure was introduced in January 1984 in order to reduce the price of public bus transportation, which is a public service that satisfies the daily transportation needs of a considerable number of people. To this end, public carriers must show that their rates have been adjusted to take this reimbursement into account.

- **Refund regarding fuel used to supply an engine for stationary purposes of the equipment of a vehicle**

Since July 1, 1999, the fuel tax system provides for a refund of the tax paid regarding gasoline or fuel oil used to supply the propulsion engine of a motor vehicle, but only on the portion of such fuel required to activate a stationary equipment of the vehicle by means of a power take-off, provided such equipment is used for commercial or public purposes.

In order to facilitate the administration of the measure, ensure a degree of uniformity in its application and prevent possible abuse in this regard, the quantity of fuel used for stationary purposes of the vehicle's equipment is established using prescribed percentages.

The granting of this refund is in line with the underlying principle of the fuel tax system, which is aimed essentially at taxing products used to supply propulsion engines.

3.4 Tax and duties on alcoholic beverages

- **Reduction in rates of the specific tax and duty regarding beer sold by microbreweries**

A reduction in the rates of the specific tax and duty applicable to beer is granted in respect of products sold by microbreweries producing beer in Québec. The rates of the specific tax and duty are reduced by 67% (50% prior to March 15, 2000) on the first 75 000 hectolitres of beer sold in a calendar year (25 000 hectolitres prior to January 1, 2002) and by 33% (25% prior to March 15, 2000) on the next 75 000 hectolitres (50 000 hectolitres prior to March 15, 2000 and 125 000 hectolitres prior to January 1, 2002), equivalent to 0.0132 cent per millilitre and 0.0268 cent per millilitre, respectively.

This reduction, which was implemented on May 10, 1995, is intended to improve the competitive capacity of small beer producers.

- **Reduction in rates of the specific tax and duty regarding alcoholic beverages sold by a small-scale producer**

A reduction in the rates of the specific tax and duty applicable to alcoholic beverages is granted on the first 1 500 hectolitres of alcoholic beverages, other than beer, sold by a small-scale producer who produces such beverages in Québec. On March 26, 1997, the rates of the specific tax and duty were first reduced by 50% on the first 1 000 hectolitres of alcoholic beverages sold in a calendar year and by 25% on the next 500 hectolitres. This reduction was subsequently enhanced on April 1, 1998, to 100% on the first 1 500 hectolitres thus sold.

This reduction is intended to improve the competitive capacity of small producers of wine, cider and any other alcoholic beverage and grant them tax treatment similar to that accorded small beer producers since May 10, 1995.

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